



August 22, 2024

To
The Manager
The Department of Corporate Services
BSE Limited
Floor 25, P. J. Towers,
Dalal Street, Mumbai – 400 001

To
The Manager
The Listing Department
National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex,
Bandra (East), Mumbai – 400 051

Scrip Code: 539450

Scrip Symbol: SHK

Dear Sir/ Madam,

Sub: Transcript of Conference Call for Investor and Analysts

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are enclosing the transcript of Q1 & FY 25 earnings conference call for investors and analysts organized by the Company on Wednesday, August 14, 2024 at 11:30 A.M IST. The audio recording and transcript is also available on the website of the Company at www.keva.co.in

You are requested to take the same on record.

Thanking you,

Yours faithfully,

For S H Kelkar and Company Limited

Rohit Saraogi
Company Secretary & Compliance Officer

Encl: As above



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S H Kelkar and Company Limited

Q1 FY25 Earnings Conference Call Transcript

August 14, 2024

Moderator: Ladies and gentlemen, good day, and welcome to S H Kelkar and Company Limited's 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Anoop Poojari from CDR India. Thank you and over to you Mr. Poojari.

Anoop Poojari: Thank you. Good morning, everyone and thank you for joining us on S H Kelkar and Company's Q1 FY2025 Earnings Conference Call.

We have with us Mr. Kedar Vaze – Whole-time Director and Group CEO and Mr. Rohit Saraogi – EVP and Group CFO of the Company.

We will begin the call with Opening Remarks from the Management, following which we will have the forum open for a question-and-answer session.

Before we start, I would like to point out that some statements made in today's call may be forward looking in nature and a disclaimer to this effect has been included in the Earnings Presentation shared with you earlier.

I would now like to invite Kedar to make his Opening Remarks.

Kedar Vaze: Thank you. Good morning, everyone and thank you for joining us on this Earnings Call today. I hope you have gone through our Results Documents which were uploaded to the Exchanges earlier.

We have delivered a strong performance this quarter, particularly in light of the challenges we faced due to the fire at our Vashivali fragrance facility which we discussed in more detail in the Quarter 4 call. Despite this we achieved an 11.3%



year-on-year revenue growth in Quarter 1, with our fragrance division posting 7% year-on-year growth. However, the fire led to an order backlog of roughly Rs. 30 crore. Without this impact our revenue growth would have been even higher.

We have been able to resume full service and maintain adequate capacity from our alternate sites in Mulund to meet all customer orders and ensure complete business continuity.

To further support our operations, our Indonesia facility has been ramped up to full production and will cater to the Asian market and export orders. With this we have now enough capacity to grow our Fragrance business without any disruption. I would like to take this opportunity to express my appreciation for our team's dedication on the ground. Their ability to navigate through this challenging period and deliver this solid performance is commendable.

Following a thorough review, we have also initiated plans to reestablish the Vashivali Fragrance facility with the project expected to be completed within 12 months. During this period, our existing facilities will continue to operate in two or three shifts to ensure we service current and new orders seamlessly.

As part of our business continuity plan, the Board has approved a proposal to prepone the establishment of our new Fragrance and Flavour formulation facility at the Company's existing site in Vanavate, Raigad. This was planned in our normal course of business to be built in 2025-26. This site, a freehold land measuring approximately 7 acres is currently being used as warehousing. The new facility will replace our two existing factories in Mulund which are currently operated on leasehold land. It is expected that the new facility will be operational before the end of this year. The capital expenditure for setting up this facility is projected to be around Rs. 80 crore. This outlay will be deployed from internal accruals and reduction in working capital.

Our core European segment continues to deliver positive performance with healthy revenue growth and strong gross and EBITDA margins despite the challenges posed by a subdued macro environment. This resilience reflects our strategic focus on expanding our presence in key European markets. Recognizing the scale and potential of the European market, we have incorporated a step-down subsidiary Keva Germany GmbH to serve as a Creative and Development Center for all our European operations. This hub will enhance our product development capabilities and provide support to customers in the Middle East apart from Europe. By onboarding talent of global caliber and creating this world class Fragrance facility, we are well positioned to drive growth to market share gains and to continue delivering robust performance across these regions in the long term.

Moving on to the Flavour segment, we experienced significant growth during this quarter with a 57% increase in revenue year-on-year. The strong performance was primarily driven by revival in the markets and an increased engagement with our existing customers. We have excluded NuTaste Food and Drink Labs from the figures as the Company has entered into a Share Purchase Agreement to divest its majority stake. We will continue to hold a 40% stake as a strategic partner in this business. The results therefore are like for like comparable.

The Global Ingredients segment has continued to demonstrate a strong turnaround in Quarter 1, building on the momentum established earlier. Our focus on backward integration and cost-saving initiatives has transformed this segment, reversing the previous losses and resulting in a profitable turnaround which is on a sustainable basis due to better supply chain.

Moving on to our Margin Performance, we reported solid improvement this quarter driven by a stable raw material environment and favourable product mix. This allowed us to enhance our gross and EBITDA margins. As part of the financial impact on account of the fire, we have recorded an exceptional loss of Rs. 120 crore net of tax during the quarter which includes damages to plant and machinery building and inventory. As we have mentioned earlier in our comprehensive insurance coverage, all risk policy also includes protection for loss of profit. This insurance we expect will fully offset the financial losses incurred. We have already filed a request for an interim payment of Rs. 50 crore with the insurance company and the necessary procedures are currently underway to process the claim.

Moving on to the Demand Outlook, the demand outlook for Quarter 2 FY25 remains strong with continued momentum across both existing and new accounts. Significant progress with global MNC account should allow us to continue to deliver strong double-digit growth in H1 itself. Building on this strong start, combined with favorable demand environment globally, we are confident of achieving more than 12% growth in FY25 and with better profitability than previous years.

On that note I would now request the moderator to open the forum for any questions or suggestions you may have.

Moderator: Thank you very much. We now begin the question-and-answer session. The first question is from the line of Nasir Hussain from Fintrek Research Advisors.

Nasir Hussain: My question to you would be that I have noticed that you have revised the Q1 FY24 numbers lower by Rs. 22 crore. So, I just wanted to know why is that so?

Kedar Vaze: As I mentioned we have in Quarter 2 undertaken to divest the majority stake in our acquisition in NuTaste Food and Drink Labs with a strategic focus to focus more on our core business. We have a strategic investor who is coming on board and

charting the growth of this business in the future. To give you a context, we acquired this business 2 or 3 years ago when it was Rs. 22 crore in revenue. Last year we grew that business to over Rs. 90 crore revenue. Going forward, that business would need a full investment in plant and machinery, new factory operations and future growth capital. Given the current contingencies and the CAPEX planned, we thought it is prudent to divest this business into a strategic investor. That has happened in the Quarter 2 this year and to take into effect that we have changed the numbers from previous years, so we have a like for like comparison of our business.

Nasir Hussain: I have another question. I have noticed that you have not reported revenue numbers from Global Ingredients. I just wanted to ask why is that so?

Kedar Vaze: We have reported it will be in the presentation. I can just share with you. The Global Ingredients revenue was Rs. 19 crore in this Quarter 1 as against as against Rs. 13 crore last year and the EBIT number is (+0.3) as against (-3.1) last year.

Just a quick additional comment on the Global Ingredients; we did not touch upon that in the opening comment. Again, Global Ingredient as a business has a positive tailwind due to the situation of chemical industry in Europe and the move globally, geopolitical and the sort of de-risking policies of most large companies to move away from dependency on China. So, we are seeing some very good robust contracts on our Global Ingredients and that is also again a sustainable growth story for the Company.

Moderator: Next question is from the line of Harsh Shah from Reera Holdings.

Harsh Shah: First, it's a commendable job with the way you have turned around the business despite the disruption caused by fire. My first question is on the sub segment of growth. If we have to look at the segments which are doing well, can you give us some color on which are the segments that are firing for you in terms of whether it is the large clientele which is doing well or is it the MSME business that is doing well for us?

Kedar Vaze: Actually, at the moment we have growth across all the segments, both the smaller accounts as well as the large global accounts and large corporates. All corporates and small accounts are growing well across the region both in India, South East Asia as well as Fragrances. Specific for Flavours, there are few accounts that are grown much bigger than last year. We see renewed momentum in the Flavour business. So, basically Ingredients, Flavour and Fragrance, all three segments are of seeing robust demand, robust growth. Five quarters ago we alluded to a few steps that we would take to change the trajectory, and we have ensured that all those are fulfilled. That has resulted in a continuous growth trajectory and especially Global Ingredient which was in a difficult situation 2 years ago, we have been able to turn

it around. And all the businesses today, there is no specific segment that is lagging. Each one of them is on budget or ahead of budget.

Harsh Shah: And if we have to look at the medium-term horizon then you expect this tragic way to last for at least next 2 to 3 years this demand environment which we were seeing in India and overseas, how long do you expect this tailwind to last?

Kedar Vaze: I think on the Global Ingredients that is to my mind structural change that movement away from China dependency, it's not 1- or 2-years trend, it's a longer-term trend and we will benefit from that. The India domestic consumption also continues to grow. That is a longer-term trend. Our global account and European business is specifically situated where we are looking at good market share gains. Being small market share in these segments again, we have a good runway to grow. So, I see robust growth across all segments in the next 3 to 5 years in the midterm. We have also established smaller inroads in markets like the US and some other Middle East markets which we will develop over the next 3-4 years for the growth leg in the strategy subsequent from 3-4 years from now. So, we are starting these markets. It will take 3-4 years of gestation period before the revenues start kicking in.

Harsh Shah: And Global Ingredients currently is a relatively small percentage of our total business contributing to 4% to 5%. So, where do you see this business 3 to 5 years down the line? And currently they're making 1% kind of a margin in this business. So, just wanted to get an idea as to where do you see this business scaling up and what kind of margin can it make once it reaches a decent size?

Kedar Vaze: So, our strategic focus has been largely on Formulations business. Ingredient business is a business that supports our Formulation business. We don't expect it to be at any point more than 20% of our total offering. So, we don't propose in our strategy to become an Ingredient supplier. We would like to continue our focus on being Formulations and proprietary product supplier. The Global Ingredient business, we expect to grow in line with the rest of the business and remain 10% to 15% of our total portfolio.

Harsh Shah: And since in the last couple of years, we have been talking about the backward integration that has been benefiting us. So, just wanted to get an idea as to what are the capabilities that the Company has increased within itself? Because if I refer to a few of the calls in the past, we have mentioned that most of the backward integration has come through our vendors. We have shifted from China to some of the Indian vendors and those are the guys who are a key part of your backward integration program. So, just wanted to understand what kind of capabilities have you built for your backward integration and what kind of capabilities do you rely on your vendors?

Kedar Vaze: So, it's a good question. There are two parts to this. One is the know-how and the intellectual property, and the other is the actual infrastructure and physical infrastructure capital, our factory. So, in all our backward integration programs, we are the ones who develop the technology, we are the owner of the IP, and we toll produce it with various vendors. So, the entire value addition or the entire development of such process, detailed knowledge is done by our Company and then handed over to vendors to produce, we are actually utilizing existing surplus capacity rather than doing CAPEX to build capacity for these products.

Moderator: Next question is from the line of Venkat from Mirabilis Investment Trust.

Venkat: Firstly, just a clarification. So, this 57% growth that we have reported in Flavour segment, is this adjusted for NuTaste like NuTaste numbers have been removed from this quarter?

Kedar Vaze: Yes. So, this is actual growth in the Flavour segment continuing without the NuTaste business. Last year we had a fairly muted quarter in the first quarter. So, the number of 57% is looking very large. But we have clearly (+20%) sustained growth in this segment.

Venkat: So, just digging a bit deeper on this. So, if we see the domestic HoReCa segment or the QSR segment, those players are experiencing a bit of a slowdown in the demand. So, if we look deeper into this growth, which segment is driving this growth you could highlight some of the takeaways from the quarter?

Kedar Vaze: So, the NuTaste business was handling the QSR and direct service business. We have divested from that part of the food-flavour offering. We continue to operate in the flavour and flavoured product formulation business which is our core business.

Venkat: On the gross margin performance like we have reported some really strong gross margins on the consol level. And if you see the European business is also reported very strong expansion in gross margins. So, what kind of product mix is driving this expansion and what should we see the trajectory for FY25 as well?

Kedar Vaze: So, this is a continuing gross margin as what we should be in normal range at 45% to 47% gross margin. Our European entity, 2 years ago we had sort of not corrected for inflation in time and given the market situation at the time, the cost increases were uncertain, what would be the way forward. So, we had a decline in gross margin from the historical average. We have now restored that gross margin to the expected levels. We have also rationalized some of our product offering and started using our capacity for the right customers to ensure good gross margin and good bottom line.

Venkat: Any headwinds currently on the raw material fund that we may need to look out for going ahead?

Kedar Vaze: I think there are early signs of some raw material prices going up. There are also some shortages or some natural products where there are concerns. We are in our business always looking at higher inventory to offset such variations. We expect that our contracts and inventory will be sufficient to counter this volatility. As of now I don't expect it to substantially change any of our gross margins across the business. If there are further adverse movements in raw materials, we will try and pass on that additional cost to our customers as is customary. So, I don't see any big concern on the raw material situation as of now. But it is not as favorable as let's say 3 or 4 months ago when the raw material prices were very low.

Venkat: And this on the global RFQ, if you could share some update on the traction has that continued or even improved from the levels that we saw in Q4?

Kedar Vaze: Yes. So, it has almost doubled from the level of Q4. So, Q1 is almost double the revenue of Q4 last year. We are continuing to engage with them on other segments and as we speak, we are taking up additional briefs and with the Germany center coming up, we will have the capability to drive bigger projects.

Venkat: Should we expect the FY25 run rate to be more than significantly more than USD10 million that we had said based on current run rate?

Kedar Vaze: It is difficult to judge the full year because as the adoption of the product is phased in, we probably see some uptick towards the end of this year. If it comes in the 4th Quarter, we will see that in this year, if it's the first quarter next year it will come in that year. So, there is definite traction, there is continuity on the engagement. So, I would not like to comment on a year-on-year growth beyond the 10 million, it is already contracted. But there is traction, there is business wins and we continue to grow that account.

Venkat: So, just lastly on the net debt that we have currently at around Rs. 540-550 crore and we have plans to spend around Rs.80 crore on the new facility. So, should we see this inching up further towards maybe Rs. 600 crore by the end of the year or is this the peak that we expect?

Kedar Vaze: I think our peak net debt as you mentioned could be around Rs. 600-620 crore, that range. Obviously, we have over Rs. 100 crore of inventory which we have replenished in this quarter and there will be an effect of that to the working capital cycle. We are expecting and hopeful that we get a cover from the insurance at least partly if not fully. So, I would still think of Rs. 600 crore maximum net debt level. We have strong robust operating cash flows, and we expect that the insurance

return or insurance recoveries should start to come in this quarter and then we should be able to balance our CAPEX through the internal accruals.

Moderator: Next question is from the line of Nikhil from SIMPL.

Nikhil: One question Kedar, if we understand correctly from de-mon to post-Covid, the smaller players or the mid segment which was a key customer for us was under a lot of pressure. Now for the last four quarters we are seeing we are hitting a double-digit growth and there is also a combination of the new business which has come in from the MNC's. But if we remove that business and if we only talk about the business from the smaller customers, is that business also growing in similar level? Are they returning to growth trajectory which was the pain previously or how is the trend there?

Kedar Vaze: I think the churn in the business due to the various effects as you mentioned, GST, de-mon and Covid, a lot of small customers changed their business model. Some of them stopped completely and others grew fast. So, this entire chain of events has already churned the marketplace in terms of sort of winners and losers and people who decided to grow the business, people who decided to sort of keep the business at a smaller level or completely exit the business. So, this churn has already happened. We have now a new baseline since 2021-22 after the pandemic and we see good traction across all segments, small, mid, as well as retail and large customers. We also see that there are new customers being added at all the levels. So, on the global MNC we are adding new customers and also at the new startup, e-commerce or similar startup brands, premium brands, niche brands, we see lot of traction in those businesses as well. So, across the board there is traction. I would just say that in general there is a movement towards new launches, new segments and some of the very traditional segments are expected experiencing lower growth. So, if I look at traditional businesses in personal wash soap and some of these penetrated fully penetrated businesses, they are doing 3% to 5% volume growth. But the other segments and the new upcoming product portfolio is compensating and giving us higher than and industry growth rates.

Nikhil: And would it be right to say that our market share in these new segments versus the traditional segments is higher or our incremental wins are better than what it was previously with the older segment?

Kedar Vaze: No, it is very difficult to make that judgment. Our win ratios have been strong throughout all this period. There has never been a year where we have not been winning business. So, the new business trajectory and trend is consistently there. There is no change there. What happens is the existing business growth has been affected by these macro changes. So, existing customers which is almost (+90%) of our business that reflects the actual number. The new win trajectory has been strong and it continues to be in a good situation.

Nikhil: And last question you mentioned that because of this fire, we had a sales deferment of Rs. 30 crore. If I remember, I think two years back there was a flood in Raigad and our facility was impacted. At that time also there was a deferment but eventually that business was lost. So, this Rs. 30 crore of deferment business, is this a business lost for us or would you say that it will recover in next three quarters?

Kedar Vaze: I think even in the earlier instance we did not lose the business. The deferment was there. We shifted to our BCP plant and manufactured in China for a period of time, and we had a full recovery of the business. And so, if you see the Global Ingredient business today it is stronger than the business last year and the year before. Similarly for Fragrances, I think only on the timelines we have been able to recover faster as the movement was to other plants within the country. We have been successful and as I alluded at the beginning of the call, the team has really stepped up and ensured that we have a transition to the new manufacturing plan. And accordingly, we are servicing all our clients without any delays or any service concerns in this period. And I think this Rs. 30 odd crore backlog also should be covered in this quarter and we should not have any concern thereafter.

Nikhil: And one thing, if I add this Rs. 30 crore, our sales growth on an inquiry level or what we should have reported seems to be almost 18%-20%. So, are you seeing such kind of activity level or inquiry levels and projects?

Kedar Vaze: If you see our growth trajectory in the last year also the third and 4th Quarter was stronger revenue numbers than the first and second quarter. There is some element of timing as well, but we are seeing that kind of run rate. So, we have done more than Rs. 500 crore in the Quarter 3, Quarter 4 and I would expect that we are in (+500) crore revenue run rate quarter-on-quarter going forward as well.

Moderator: Next question is from the line of Bharat Sheth from Quest Investment Advisors.

Bharat Sheth: In the initial remark you said that we are preponing the CAPEX at our new facility so can you give some more colour? I mean this preponement as well as our Vashivali will also come back by next year beginning. So, are we seeing such a kind of growth that we need to really build up a very large capacity?

Kedar Vaze: So, if you look at the event, we have a capacity of roughly 10,000 tons which is Vashivali plant which has been which is not operational at the moment. So, we have moved that to two other plants which are roughly 3,000 to 4,000 tons capacity and we are able to continue that as Vashivali was not fully utilized. What we are proposing is, so the original plan and we have the factory permissions, and this is a factory built in 1980s. So, it's really an old facility. We were to update it in 2025-26 financial year as per our original long-term strategy. We are just preponing that by 2 years. We see that the growth for this business is quite robust. We are continuing to see 15% levels of growth vis-à-vis last year to this year. And we have an

opportunity or the kind of timing effect where this plant can be ready in 6 months. Vashivali will take longer than 12 months to be fully operational. So, we will fall short of capacity in a year or two years' time if we do not build this facility. If Vashivali facility was fully operational that had additional capacity to take over from the smaller plants. I think at this moment we need to build that extra capacity. We are seeing robust growth, in fact very strong growth signals from all our clients and all our segments. So, we would proceed to build this factory. As a result of the fire, we have now two factories in Mulund which are on a leased basis. So, the OPEX cost savings will offset the CAPEX in terms of I would say if I compared interest and other benefits, and we will have the capacity for future growth three point by 2 years.

Bharat Sheth: And second on this Global Ingredient, you are talking I mean a good growth as well as reviving which once upon a time we were kind of thinking or continuing only for because of our commitment towards the client. Now where do we see the margin in terms of for this Global Ingredient business?

Kedar Vaze: I think the Global Ingredient business in terms of gross margin has been kind of in that 35% ballpark sustainable margin level like any other specialty chemical. And as you see from this year's first quarter result, it is in a positive EBITDA territory. As we continue to derive benefits from further growth in volume and optimization of the backward integration, we will realize better margins and better growth in this ingredient.

Bharat Sheth: So, without putting any specific number, could it be in a high single digit or low double-digit kind of from next year onward do we expect?

Kedar Vaze: You see historically this business was roughly Rs. 95 crore revenue as a business. We had a fairly high market share before the Chinese competition came in 3-4 years ago. So, the potential of this business is roughly Rs. 95 to 100 crore at this moment without any increase. So, we have now realized around Rs. 20 crore in the first quarter. So, we expect to have about 80% of the market share. This is as far as the product is currently being produced and marketed. We also have a pipeline of ingredients that we are making and which we have filed for patents or which we are growing. Although they will be smaller in current revenue, we expect those to grow as well as we go ahead on the expansion.

Bharat Sheth: I am talking of margin. If you can give some colour going ahead, not this year next year onward and overall, that will be saving in the lease charges as well as new factory more efficient?

Kedar Vaze: If you look at this quarter, we have an excess of 16.5% or 16.6% EBITDA on revenue. If we take into account the additional cost which we expect to be reimbursed through the loss of profit, we will be in well over 17.5% EBITDA for this quarter. We

expect that we should be around these levels going forward with good strong sustained growth at 12%-12.5% plus revenue growth year-on-year. We will see some stabilization and we will look at also the European fragrance business at some point where we will need investment for capacity expansion. At that point we will see some flattening of the EBITDA percentage by 0.5% of 1% when we move to the new facilities in the near term. But 17% to 18% EBITDA level and 12% to 13% CAGR growth, we are confident of delivering and we continue to be on that trend line.

Moderator: Next question is from the line of Jayesh Rao from SaaS capital.

Jayesh Rao: I had a couple of questions. So, what is going to be our total CAPEX between Vashivali and the new facility?

Kedar Vaze: I think the CAPEX for the new facility is outlined at Rs. 80 crore. For Vashivali facility the CAPEX is not specified as that will be covered through the insurance. We will not have additional spending for that. That detailed work is underway at this moment. What we are proposing to do is to build. So, instead of 10,000 tons in one location we will build 7,000 or 6,000 tons or 5,000 tons in two locations. We are working that out and then we have additional Phase II which we can build subsequently once the ramp up of the demand has reached that level. So, instead of reinstating Vashivali to the full 100% capacity immediately and operating it at 30%-40% capacity usage, we will build a slightly smaller capacity in the first phase and build a new factory which we have already initiated to build. So, total capex will remain Rs. 80 crore in both the factories. There is no additional CAPEX in Vashivali envisaged.

Jayesh Rao: So, in that case you know we have at this point in time a robust cash flow and we are through largely with our European investment. So, I was just wondering why would the debt levels rise then?

Kedar Vaze: The debt levels actually are rising because the inventory losses in Vashivali factory of over Rs. 100 crore. We have replenished those inventories in May and June and those payments will be due in this quarter. So, it is only a timing effect, it is not a structural issue. We are hoping to the insurance claim well in time that we don't have effect on the net debt going up substantially. In case there is a delay on the insurance payout then there might be a small increase in the net debt in 1 or 2 months before it comes back to normal level.

Jayesh Rao: I am just saying that if you receive the insurance claim because as of now, we are generating cash at the rate of about Rs. 200 crore a year.

Kedar Vaze: If you go back in earlier calls, talked about reducing the debt every quarter by Rs. 25- 30 crore. We are on track in terms of operations in that line. We have this additional Rs. 100 crore working capital as a result of the inventory replenishment.

If the insurance money comes back, we will reduce our debt by about Rs. 100 crore immediate basis.

Jayesh Rao: And just one last thing. So, then what happens to our Mulund facility? I mean are we in a position to monetize that?

Kedar Vaze: So, the Mulund facility is not owned by the Company, that is a leased building and land. So, we will terminate the lease in 2025 once the new facility is built. We also need to take into account that we had four factories. We had two factories for Flavours. So, one factory for Flavours has been also reduced in this reorganization of production. So, we will either retool the Mulund factory back to Flavours or then look at alternative for a Flavour BCP export unit. As exports are also growing fast in Flavours. So, this is what we are proposing at this point. Our lease rental agreements are expiring in 2025. We had planned for '25-26 to relocate the factory. We will do that in parallel. So, that 5-6 months there will be a double factory in that scenario. But without the Vashivali factory I think it will be prudent to build the capacity ahead of demand. Because we are now at more than 85%-90% capacity utilization. If you look at it technically probably even 100% capacity utilization.

Jayesh Rao: So, our domestic Fragrance is actually flat this quarter. So, that is because of the fire incident because if you see in the presentation your rest of the world Fragrance has grown at 63% and domestic is largely flat.

Kedar Vaze: Absolutely right. Domestic Fragrance also is flat because some of the business was supplied in early weeks of July instead of last week of June. So, that 10 days deferment has happened in the last quarter roughly Rs. 25 to 30 crore of revenue which would have slipped to the second quarter.

Moderator: Next question is from the line of Pradeep Rawat from Yogya Capital.

Pradeep Rawat: I have a few questions. The first question is regarding our customer concentration, so how much revenue do we generate from our top five customers?

Kedar Vaze: It's less than 15% of the total.

Pradeep Rawat: And my next question is regarding our total addressable market. So, can you highlight upon that and what is the growth rate for the addressable market?

Kedar Vaze: So, our total addressable market is in excess of \$10 billion with the European expansion and inroads in Southeast Asia that we are making. So, there is a huge market share gain that we see going forward. So, there is no demand issue in the next 4 to 5 years on our current business where we are operating.

Pradeep Rawat: So, my purpose for asking this question is like we are growing at a space of 10% to 12%. So, is there any headroom for growing like in high double-digit growth or something like that?

Kedar Vaze: So, what happens is that some of the traditional or the older businesses have a smaller volume growth, so, 4% 3% or similar. So, when we look at a 12% average, we are also talking about the existing business which has 30% of the business growing at 3% to 4% and the net average of 12%. That means the newer businesses and new businesses are growing by over 15% to 18% per annum.

Pradeep Rawat: And my last question is regarding our contract duration. So, what is the average contract duration that we have?

Kedar Vaze: Strangely enough we don't have long term contracts, very few contracts beyond 1 year. But in terms of our stickiness, in terms of our business more than 95% of our business is repeat business year-on-year and if I take even beyond 5 years, beyond ten years, almost (+90%) of our business is repeat business. While their contracts are short term, the contracts have been renewed year-on-year for many years on a continuous basis. So, as a business, the demand is generated by the end product. And the customer and us work together to make sure that we get the best solution for the consumer and very often once it's a running brand, we are not seeing any change or churn. We have many clients who are 60-70, even 90 years of continued purchase from us. 90% of our business is proprietary business. We are the owner of the IP; we have the know-how and we have good relations with our clients and service their requirements. So, there is a very strong stickiness to our business which is not contractual but in actual reality. So, it's not that we have to supply them for 10 years because there is a contract we are supplying because the product is successful, and the consumer and the customer wants that product, and we are producing that product at a very reasonable offering in terms of price service. So, it is a long-term relationship-based business and nothing a contract-based business.

Pradeep Rawat: And my last question is regarding our CAPEXs. So, after completing both the CAPEXs like first one of Vashivali and other CAPEX, so what would be our peak revenue potential after those CAPEXs assuming our current prices and product mix?

Kedar Vaze: So, we would be in a position to triplicate our current volume. So, if we re-establish Vashivali, Vashivali was capable of making 20,000 tons in a year on a one shift basis. So, we could easily produce 5X as much as the current operation level. In the new rebuild of Vashivali, we may plan to do it in two phases and build only half the capacity initially and then the other capacity is offset with the new facility we are building now. So, we have to bit of scenario planning for the next 5 years, we will redo that based on the new situation. Post both the factories coming on stream, we will have enough capacity for the foreseeable future, probably foreseeable future decades.

Pradeep Rawat: So, our current like what we have right now we will be having that only after these both CAPEXs but renewed?

Kedar Vaze: Yes, we would have basically the same capacity but renewed. I would also like to point out that we have built one more factory in Indonesia. So, part of the export that is happening from India will be shifted to Indonesia factory. That will add another 10% capacity to the existing plant and thereafter as an overall capacity in Asia, we would have increased by 20% the capacity post Vashivali and new facility coming on stream.

Pradeep Rawat: And so, what would be our utilization currently if we have Vashivali and other facilities operational? So, what would be our current utilization?

Kedar Vaze: So, when Vashivali was operating prior to this incident were operating at around 40%-45% of capacity utilization. We have also improved our productivity in terms of the changeover and found better processes, better methods to complete or to have a productivity gain I would say of almost 30%. So, the same plant, which was earlier producing certain tonnage, we are in a position to produce 20% to 30% higher tonnage with the new way of working.

Moderator: Next question is from the line of Ganesh Shetty, individual investor.

Ganesh Shetty: I just want to understand how the domestic FMCG market is panning out and how the demand is rising over there and what additional opportunities are you seeing in the market?

Kedar Vaze: I think the domestic FMCG obviously is growing well in totality. There is, as I mentioned traditional or some of the mature penetrated product growth is flattening out. But new products and startup products or new segments are catching up fast. So, in total I believe that the FMCG business would do in the fragrance side in India 8% revenue growth on an average. But it will be new players more disruption in terms of new brands, new products rather than existing product formats. So, e-commerce brands are growing, many startup brands, many niche brands are growing. The value growth is there. The traditional FMCG growth versus last year to this year in terms of volume there will be slowdown relative to previous years.

Ganesh Shetty: My second question is regarding the R&D spend on our new products. Are we getting R&D funding for our R&D activities? If so, how we are capitalizing on it and the new product which you are manufacturing on the basis of R&D activities, are they showing good robust growth in the market?

Kedar Vaze: Yes, both the questions answer is yes. R&D products are being used. They are now helping us to grow faster. In addition, with all our development work we are getting

new wins in proportion to our investment. So, that is growing well. On the RFQ if you mentioned, also the business is running well. We are expected to double that from last year. We may do better than double. That depends on the adoption of new businesses in terms of the timelines, but we are doing well on both the fronts.

Ganesh Shetty: It is really commendable that in spite of fire at one of the prime manufacturing unit, we have rearranged our business model and increased the capacity and seen that our business is not lost. And this has in fact made us more efficient in operations as well. So, I once again congratulate you on that. Thank you very much for taking the question.

Moderator: Next question is from the line of Suhas Naik from Aretha Capital Partners.

Suhas Naik: I would like to ask you one question. You sounded quite optimistic about the China Plus that is happening right now in the world. So, could you quantify because are we seeing any shift in terms of our orbit in the next couple of years and what kind of proposals are we getting, what sizes that we are talking about here? Just trying to understand the positivity that is surrounded right now but is there a way you can quantify that?

Kedar Vaze: Let me quantify that. Firstly, this China or away from China movement will only affect 10% of our current business which is the Global Ingredient business which will benefit as a result. If you see last year to this year's first quarter, we have already grown the business by about 50% over the same period last year. This is a sustained growth in a profitable EBIT level growth. We see this playing out. We have good enquiries that on the total context of the Company together with the Fragrance and Flavour formulation business, it will be only 10% of the total business which we will see tailwinds in this business. But we have strong traction of enquiries, new product requirements or requests and the R&D team has the capability to turn it around. I expect that will give our Global Ingredient business a regular sort of product pipeline and continued growth of 10% to 12% year-on-year. It's not going to be substantial in terms of the overall context of our group business, but the Global Ingredient business will definitely get a fill up on additional volumes and additional products.

Suhas Naik: And I see the MNC client that we have won, at what stage are we with some other large MNC's or global players in terms of supply arrangements?

Kedar Vaze: So, we are supplying to other global MNC's as well. So, the number of global MNC's that are our clients is increasing year-on-year but it's a slow process. So, I don't want to jump the gun and comment on that. But we are engaging with almost all the large global FMCG companies.

Suhas Naik: So, has there been a shift in terms of how they perceive us over the last 2-3 years? We have been putting a lot of effort over so many years. So, has there been a shift in the way they perceive us as a supplier?

Kedar Vaze: We have to ask them this question. I cannot say there is a shift. All I can say is that there is more engagement. We are getting more briefs. So, that is a good sign that we are moving in the right direction now. It's not like overnight there is a one-off switch in the perception. Perception is improving. That I can definitely see what the direction is very positive in the right way. It's not like a shift. It's not an on and off. It was not there and now it is there. It's just a gradual improvement in the business relationship and the actual business.

Moderator: Thank you very much. I now hand the conference over to the Management for closing comments.

Kedar Vaze: Thank you. I hope that we have been able to answer all your questions satisfactorily. Should you need, any further clarification, would like to know more about the Company please feel free to contact our team or CDR India. Thank you once again for joining on this call.

Moderator: Thank you very much. On behalf of S H Kelkar and Company Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.

-End-

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