Keva

February 21, 2022

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

Scrip Code: 539450

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

Scrip Symbol: SHK

Dear Sir/ Madam,

Sub: **Submission of transcript of conference call under Regulation 30 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015**

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are enclosing the transcript of Q3 & 9M FY 22 Earnings conference call for investors and analysts organized by the Company on Tuesday, February 08, 2022 at 02:00 P.M. IST.

You are requested to take the same on record.

Thanking you,

Yours faithfully,

For **S H Kelkar and Company Limited**

Deepti Chandratre
Company Secretary & GM Legal

S H KELKAR AND COMPANY LIMITED
MUMBAI
400080

Encl: As Above

S.H. Kelkar & Company Limited
Earnings Conference Call Transcript
February 08, 2022

Moderator: Ladies and gentlemen, good day and welcome to the earnings conference call of S.H. Kelkar and Company Limited. As a reminder, all participant lines will be in 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. 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, sir.

Anoop Poojari: Thank you. Good afternoon, everyone and thank you for joining us on S.H. Kelkar and Company Limited's Q3 & 9M FY22 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 would like to begin the call with opening remarks from the management, following which we will open the forum for a question-and-answer session. Before we start, I would like to point out that some statements made in this 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 Mr. Kedar Vaze to make his opening remarks.

Kedar Vaze: Good afternoon, everyone. And thank you for joining us on our Q3 & 9M FY22 earnings conference call.

We have reported a steady performance in the quarter and nine months. Q3 FY22 grew by 6% on back of rebound in consumer demand and new client wins. Emerging markets reported a 3% revenue growth on account of subdued volume particularly in December due to pandemic disruption. European market reported constant growth of 8% with 18% growth in CFF's core business. In our core domestic Fragrance business, we saw improved demand momentum, with revenues improving by 12% year-on-year and 3%, sequentially. The Southeast Asia region continued to be affected by the COVID serge and is yet to recover. Furthermore, there were supply disruption during the quarter that has impacted export shipments.

On the raw materials front, we continue to witness cost pressures on account of global inflation, with additional challenge due to supply chain constraints and logistics. This moderated our profitability performance and margins on a year-on-year basis. However, despite the ongoing challenges, on a sequential basis, our margins have remained in the stable range. Gross margin stood at around 41% and EBITDA margin stood at 15.8% in Q3FY22. In order to mitigate cost pressures, we are working with our customers and undertaking price hikes. Our Profit After Tax in Q3FY22 has come in at Rs. 32.4 crore.

Coming now to some key business updates:

We are happy to share that we have acquired 62% stake of Holland Aromatics, a leading Fragrance company in the Netherlands. The balance 38% will be acquired in two tranches of 19% each over the next two years. The transaction brings onboard a high potential company with strong local presence in Europe, particularly Northern Europe, and complementary to our CFF business. A proven expertise in the F&F industry, along with a blend of capabilities from CFF, Nova and Holland Aromatics will strengthen our endeavor to tap upon diverse customer segments ranging from local MNCs and particularly assist us in our endeavors to take global MNC business.

We are also pleased to share that we are now participating in a global RFP that is 'Request For Proposal' and engaging with a large global FMCG MNC for commercial tender submission. This is a global business in excess of a billion dollars, which is up for negotiation. This is a key step and sets the stage for SHK to tap upon further global opportunities and a key focus area that should drive the next leg of growth for us.

In another key development during the quarter, the Board has approved the acquisition of 100% stake of NuTaste Food and Drink Labs. This acquisition accelerates the momentum of our Flavour business and enables us to further expand into the high potential Flavour categories such as syrups, sauces, seasoning, fruit preparations, and other such premium grade products. The transaction brings onboard a solid and reputed customer base across the fast-moving FMCG, particularly QSR space. Overall, both these acquisitions are value accretive, synergistic and growth oriented.

From a consolidated balance sheet perspective, our net debt position stood at Rs. 438 crore, as on December 31, 2021, compared to Rs. 347 crore, as on September 30, 2021. The increase in debt was primarily due to higher working capital in the current inflationary environment. I would also like to share that following the conclusion of our latest two acquisitions, we expect that our net debt will reach levels of around Rs. 550 crore in the coming quarter. While we had indicated in the past that we would be reducing our debt levels, these acquisitions presented significant potential for future growth. Both acquisitions are highly growth oriented and as such rare in our globally competitive and highly consolidated industry. They align and fit perfectly with our vision of emerging as a notable player, particularly with global MNCs. Having said that, we have historically been conservative on that, and we will continue our endeavor to reduce debt from the next quarter onwards.

To conclude, with the Omicron variant impacting discretionary spending to some extent, we witnessed moderate growth in December and January. However, we are operationally in a strong position, seeing healthy wins across the markets and our strategic initiatives and participation in global RFP should result in positive growth momentum over the next few fiscals. Overall, we are confident on driving growth should enable us to report healthy performance going forward.

I would request the moderator to open the forum for any questions or suggestions.

Moderator: Thank you very much..

The first question is from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia: First question is on acquisition. So, if you can just provide some more detailed perspectiveonwhat kind of complimentary portfolio and addressable market opportunity has kind of opened up for all? And you also alluded that it provides a high growth opportunity, so if you can elaborate a little bit?

Kedar Vaze: So, let me start with Holland Aromatics. Holland Aromatics is a niche Fragrance manufacturer in the Netherlands with about roughly EUR 6.5 million annual revenue and greater than EUR 2 million EBIDTA. It is in close proximity to our sites both the erstwhile manufacturing site and the development laboratories in Amsterdam. Given its proximity and ability to work together with our development site, we are very confident of further expanding their business into Northern Europe covering Benelux and Germany as an additional market. We already have our CFF manufacturing site in Italy, which allows us to cover most of Southern Europe and Eastern parts like Turkey supplied from Italy. So, this two-manufacturing site approach will help us to consolidate our position in Europe.

Additionally, there are a couple of global MNC FMCG companies with strong presence in the Netherlands havingtheir development and headquarters for corporate global working. So, the Netherlands acquisition also strengthens our liaising with the local headquarters or R&D centers in the Netherlands with these companies. So, this allows us to grow the CFF and European business on a much faster yield. As both North Europe, South Europe demand can be fulfilled in one composite group.

Additionally, Holland Aromatics has export businesses in Indonesia. And as you know that we have embarked on a '3I' strategy with Indonesia, India and Italy being our focus areas for future growth. So, Holland Aromatics complements the business that we are doing in Indonesia and with their support and they have some tie ups in the Indonesia market, which we will benefit going forward.

As to the second acquisition, which is NuTaste. NuTaste is in the space, which is traditionally between Flavour and FMCG product companies. So, for example, we are making chocolate flavours, they are making chocolate sauces and chocolate inclusions for biscuits and bakery confectionery companies and with this, the complementary set of products that go to FMCG and pharmaceutical companies, we are able to offer the full complement of products. They are already working with large FMCGs. And so, with the offering of both direct Flavour and Flavour plus additional products, we are able to cater to entire requirements of the FMCG, bakery, confectionery, pharma sectors.

Apart from that we also have a solid powder Flavour facility together with our earlier acquisition, which has given us some amount of Savory Flavours. We are now targeting the QSR business and Savory Flavour business in combination, where in all the food segments there is this dual kind of an approach, one is the Concentrate Flavours, and the other is ready-to-use Flavours. And in this NuTaste is complementing our Concentrate Flavour business by having ready-to-use products for QSR (Quick Service Restaurants) and FMCG companies, including nutritional supplements, nutrition business and Flavour for beverage, pharmaceutical and bakery industries. It complements the Flavour business and it allows this to grow beyond the traditional R&D-led Flavour usage to broader usage, including large canteens and some of the midsized food delivery and food companies which utilize Flavours in a ready-to-use form. So, this has given us another growth opportunity for our Flavours business.

Viraj Kacharia: Just one follow up on Holland Aromatics. Sir, we paid around EUR 13 million for 62%, so it is easy to say we paid slightly upwards of 3 times. So internally when we think that we expect a high growth, what kind of growth we are looking at?

Kedar Vaze: It is 10 times of EBITDA and we are very confident to replicate CFF type double digit growth within Europe. The company has been growing at excess 10% CAGR in the last three, four years. And we will supplement and complement that with our CFF and Keva Technologies to further continue this momentum.

Viraj Kacharia: Second question is, so with the Holland Aromatics acquisition and the other as well, you said our overall net debt will be close to Rs. 550 crore, so over next one to two years do we have any target in terms of what kind of a debt levels we want to settle down with? And also in the December business update, we talked about paying Rs. 12.5 crore fee for participating in global RFQ, so that's including in the current quarter numbers or it will get reflected in Q4?

Kedar Vaze: So, Rs. 12.5 crore is WIP, and hasnot crystallized as yet. So, we are currently in the business discussions and once the RFP is submitted, we hope to get sufficient business to be able to cover our investments in this tender process plus three years' business growth. So, the total tender quantum is excess of $1 billion and we are waiting and expecting the first awards of business to come in probably next two months and then it's a process whereby the entire business will be awarded over a period of 12 months thereafter.

Rohit Saraogi: And the cost will get amortized over a period of the contract. So, suppose if we get a contract for a period of two years or three years, the cost of Rs. 12 crore will get amortized.

Viraj Kacharia: Okay. And on debt part?

Kedar Vaze: Yes. So, debt reduction, we are already looking at that, as we talked earlier. The high inflation in the raw material has meant that almost Rs. 50 crore, Rs. 60 crore of additional raw material value we have taken for the same volume that we have been managing and keeping. We believe that once the raw material inflation stabilizes in one quarter to two quarters, this kind of money cash flow will quickly come back in addition to the operating profit of that quarter. So, there is a ballpark Rs. 60 crore of working capital which has gone in. And as the sales price increases take place, this entire working capital has to go through the cycle for recoveries. And we will get Rs. 60 crore out of the working capital in addition to the operating profit of each quarter.

Moderator: The next question is from the line of Lakshminarayanan from ICICI Prudential AMC. Please go ahead.

Lakshminarayanan: Just two questions. If we look at our history, the last four or five years we have done several acquisitions, the small tuck-in acquisitions to large ones, right? So, if you just put it together over the last four, five years, what has been the experience in terms of the total capital that has gone in for acquisition, how that has actually benefited the company, either qualitatively or quantitatively? And subsequently, how do you look at it, whether this will yield results? One, should we look at it immediately, or should we look at it in long term, so how do you look at it because we have CFF last year which we acquired and this year also, we had this, right? While I understand this one is synergistic, just to understand how much capital has gone in and what has been the result qualitatively and quantitatively?

Kedar Vaze: I think, Mr. Lakshminarayanan, if you allow me to send that statement with a total capital outlay and a specific comment on each acquisition and where we are, that's probably a better way of looking at it. So, we will make an update on this

Lakshminarayanan: Yes, maybe one suggestion is that maybe in your presentation itself, you can actually just put a chronological snapshot of acquisitions, what has been done, so that it will be helpful for investors at large.

Kedar Vaze: We will try to post that in our annual report, where we can do justice on the total discussion. So, we will endeavour to make a section in annual report with our last five years view on acquisition and way forward.

Lakshminarayanan: But anything on the top of the mind you want to tell, not numerically, but qualitatively?

Kedar Vaze: So, going back to the strategy of the acquisitions, first leg of acquisition was on the Ingredients, the second leg of acquisitions was on the Flavours, and now recently, it is to expand further the Fragrances business. In each way, we had a specific strategic target as to why we want to do the acquisition and what are the benefits for that acquisition. I think, by and large, I would say 90% of the objectives have been met.

In terms the environment on GST and post pandemic, the subsequent penciled growth rates of the economy or customer side have not panned out. And that's why some of the acquisition value and the debt has gone up faster than what we had originally planned. But these are matters, I would say, within tactical one or two years of slow growth and pandemic situation. Otherwise, by and large, if you see the CFF which was not facing the same kind of pandemic pressures, we have delivered double-digit growth. On the various Flavour acquisitions we have now integrated last year and you've seen that last year or two years, we have a double digit CAGR growth in the Flavours. There is good traction in terms of product development and approach.

So overall, I think the acquisition strategies have been well worked out and it's working well. We now need to focus on consolidating the acquisitions to build the synergies that we will take up in the next one or two years that we consolidate what we have. The key point here is that now we've also been able to demonstrate manufacturing and capability outside India. And one of the key conditions of the global MNC RFP, as I've mentioned earlier, is innovation and geographic spread beyond one location or one country. So, with the Italy and now Holland manufacturing, India manufacturing and China manufacturing, we are now in a position to participate on the global RFP.

So, on the strategic front, the views that we had on the acquisitions have largely been fulfilled. On the technical front, yes, the revenue growth has not happened in the same manner that we had penciled when we did the acquisitions. But I attribute large part of that to the pandemic situation, because as soon as we've seen non-pandemic quarters, we are doing good growth.

Lakshminarayanan: Got it. So, if you just look at next three to five years, would you be looking for more acquisitions or you would first be looking to consolidating this, how you think three to five years out?

Kedar Vaze: So right now, we are in the situation of consolidating what we have just recently acquired, till we are able to consolidate, bring down our debt to levels of less than 2 times of the EBITDA, we would not look at any further acquisitions.

Lakshminarayanan: Got it. And in terms of the cost of debt, what is your approximate cost of debt? Because on the balance sheet appears to be a 3.5% or so, I mean, I don't know whether my calculation is right.

Kedar Vaze: Yes, that's right. The cost of debt is somewhere between 3% and 3.5%, because most of the debt is in overseas U.S. dollar or Euro denominated debt and underlying businesses are also generating sales and return on the same currency.

Lakshminarayanan: And in the last one, two years, we have been accelerating on acquisitions, is it that there is some kind of a change in the landscape that a lot of assets are coming at good prices or one is, of course, your business need. But why a lot of assets are coming up and how do you think about it? There's some consolidation taking place or not?

Kedar Vaze: I think, the obvious answer to that is that there is a lot of liquidity in the market. And there is a strong consolidation and a wave of consolidation not only from our side but as an industry all the large players and significant players are on substantial acquisition in the last couple of years. Plus, these midsize and smaller businesses have had to deal with the pandemic and effects of the pandemic which is making it attractive for them to sell their business or in cases joint venture or otherwise.

So, there is a situation between sort of two opposing forces liquidity driven acquisition plus sort of businesses are willing to make a deal at this time because of the uncertainties. That is why there has been a trend of acquisitions in our industry and I think, in a lot of industries recently. The other flipside and the reason we needed to participate in this also is to ensure that we have some of our strategic goals in terms of Europe and further growth on Flavours and that we don't fall behind. And there is further consolidation of the industry that we don't get a chance to participate in the future. So, some of the acquisitions we have needed to do, making sure that we have a foot in the door and we know that there will be a player in the market in different geographies or in different business segments where we need to have our next leg of growth.

Lakshminarayanan: Got it. Just one last question from my side. So, if you split the business into India and non-India and again Fragrance and Flavours, which you think will grow faster and also be more margin accretive? Is it that the India Fragrance will outpace or the India Flavours will do or the international piece?

Kedar Vaze: I think the opportunities are, we have the global RFP, which is largely on the Fragrance, which will not be only India centric, it will be on a global nature. Our acquisitions in Europe are on the midsize and smaller end of the Fragrance customers, so these are the areas which are growing faster in the developed market. And we continue to engage with all our large corporate customers within India and South Asia, which is third leg of growth.
Having said that on Fragrance, the Southeast Asia region particularly has been affected in the pandemic on sort of longer timelines than Europe or Middle East. And we are looking at the correct strategy and timing to restore the growth momentum in Southeast Asia. So out of the three regions,

Southeast Asia has been lagging, India is following market, Italy has been ahead of market on both current and in terms of the future potential.

In the Flavour side, India as a Flavour and Food market is a very large opportunity for us in the next decade or two decades as the trend towards packaged food and flavoured products starts to increase.

Lakshminarayanan: Okay. what has been the two-year CAGR of the fragrance division domestic and international? I mean, I have the one-year number which is there but what has been the two years growth?

Kedar Vaze: So, the fragrance, two-year CAGR has been 4% on Emerging Markets, and 11% on the Developed markets in Italy and Flavour CAGR is double-digits across.

Lakshminarayanan: Sir, you said India is 4%, that's what I heard nine months.

Kedar Vaze: That's right.

Moderator: Thank you. The next question is from the line of Sachin Kasera from Svan Investments. Please go ahead.

Sachin Kasera: Sir, my question is, regarding the tender, which you highlighted opening up in next couple of months, could you talk in a bit detail about them who will be the peers, which segment you will be looking at, the size of the tender, the business you're looking at?

Kedar Vaze: So, at this moment, I am only at liberty to say that it's well over a billion dollars total global annual potential, which we are bidding for. There are various bidders and over the next 12 months the tender which is sort of a total global tender will be broken up into specific bidding portions and that process will be complete in the next 12 months. We should have our first results in terms of business award or potential business award sometime in the next two months. And then following that, we expect a 12-month process where various parts of the overall business are then kind of tendered and negotiated and going forward the businesses start.

Sachin Kasera: Okay. So, what is the duration of the tender?

Kedar Vaze: Multi-year agreement, excess of three, four years agreement to supply and it will start I think somewhere in April in terms of the timelines of the process. And it will continue thereafter business by business throughout the 12 months, the next year.

Sachin Kasera: So, sorry I missed that, from the time we win the tender, how long does it take for it to show it in the P&L?

Kedar Vaze: So, assuming that you have a business opportunity tender in April, it probably takes five to six months before the change in the business happens. If the tender is awarded in April, the business should start in 1st of October, something like that. So there could be two quarter delay between the award of the business and the actual revenue flow.

Sachin Kasera: Okay, okay. So, versus a billion-dollar tender size, what sort of size are we looking at in terms of the business opportunity, the customer also looks at our P&L size and kind of bid the business accordingly, how should we kind of understand this?

Kedar Vaze: So, we are bidding for all parts of the business. But in terms of our strategy and our current operations in Italy, India and Indonesia, we stand a better chance in these geographies and certain specific categories. It's a very complex process. And I'm not at liberty to divulge any more details at this moment since it's in work in progress. But we expect sizeable growth opportunity in this tender over the next 12 months, starting from April, May when the first result start coming in. And we anticipate that in terms of size of the business, the total size is over a billion dollars. But very practically, even if we look at 5% of that business being materialized in reasonable short-term, that's something which is exciting for us to take forward.

Sachin Kasera: And sir a billion dollar, just clarifying will this be annual size of the revenue it's over time of the contract?

Kedar Vaze: No, annual revenue size is more than billion dollars and we hope to start somewhere with 5% to 7% of that business in the first wave.

Sachin Kasera: Okay. And sir, can you please repeat the Flavour -industry CAGR, two-year CAGR which you just mentioned to the other participant for the Indonesia, India and Europe market?

Kedar Vaze: Yes, so India, as I mentioned is 4%, Europe is 11% and Southeast Asia is minus 2% CAGR growth, somewhere minus 2%, minus 3%, where we have had supply disruptions and slow growth.

Sachin Kasera: Okay. this is F&F combined?

Kedar Vaze: This is Fragrance and Flavours is largely 11% CAGR growth in two years. India,Middle East and South Asia, this region, we monitor our markets in emerging and other markets and so further in South Asia placed as one and Southeast Asia as the second.

Sachin Kasera: Okay. And sir, coming to this Holland Aromatics acquisition, so you mentioned we paid 10 times of the EBITDA?

Kedar Vaze: 10 times EBITDA ballpark number.

Sachin Kasera: Okay, okay. So that is almost similar to our valuation.

Kedar Vaze: That's correct.

Sachin Kasera: Okay, okay. So, how many other companies were there along with us if you could?

Kedar Vaze: In terms of?

Sachin Kasera: In terms of bidding for the asset, were there any other companies?

Kedar Vaze: I don't have full information on that. So, I don't want to speculate.

Bharat Sheth: Good afternoon and thanks for the opportunity. Kedar, my all the questions have been answered, one question recently that Swiss company, which acquired a 10% stake in our company, which is of course, we are already working with them. So, with that, their acquisition do you think it can open up more door for us, our company to do business with them?

Kedar Vaze: So, we are already within the Fragrance and Flavour industry customers and competitors and suppliers, it's a common pool we buy from all our competitors, competitors buy from us various ingredients, and we compete on the final formulation and composite business of the FMCG. So, there is always buy and sell relationship within the industry with many people.

With this 10%, really it's just I would say industry insiders thumbs up on our strategy and growth potential. And we are already discussing and working with Firmenich on various initiatives as a normal business development and I think this may open up some further initiatives on that front. I just want to stress that we are independent company in the industry. We have no tie up with Firmenich or anybody else. And we continue to remain independent and operate our own strategy in the future.

Bharat Sheth: Okay. And this Indian acquisition, what is the size of that company? And that how much really with complementary products and so cross selling opportunity is there for us?

Kedar Vaze: So, this year the revenue is estimated between INR 30 crore and 40 crore, depending on the pandemic scenario, if it eased up, maybe the revenues will pick up but we expect somewhere between INR 30 crore and INR 35 crore of revenue annualized basis. And that adds nicely to our own Rs.120 crore annualized basis revenue.

Bharat Sheth: And any colour on their EBITDA margin?

Kedar Vaze: So, I think their EBITDA margins are lower, as I mentioned, we are in the concentrated Flavour business, they are more in the ready–to-use business. Their EBITDA margins are in the 7% to 8% range but that is on a much larger volume, more linked to commodities and QSR and direct-to-consumer usage and also, with the FMCG customers. So, they're sort of in between step and the Concentrated Flavour is converted into either a chocolate sauce or a chocolate inclusion or spicy sauce. And those are then included by the FMCG, or kitchens or direct to consumer product companies. So, it's a step down from our Concentrated Flavours into ready to use Flavour market. So, it's much higher volume from a volume point of view but most of it is commodity trading and value addition comes from the Flavour and nutraceutical elements.

Bharat Sheth: Okay. So, is there any cross-selling opportunity?

Kedar Vaze: There are good complementary set of FMCG and clients and certain segments which are not our current clients, like QSR and common kitchens, canteens, things like this, which are not using direct Flavours but using ready-t- use Flavour mixes. So, their business is a straight add-on business in terms of our approach to the client. The large clients they have a full-fledged R&D are often buying concentrated Flavours but the mid-size and sort of kitchen canteens, QSR, fast food chains they are interested to buy ready to use Flavour products. You've seen, for example, Peri-peri and all the fast-food chains have their mixes on top of their product. And all these are QSR products which this company also makes. So, it's a very good direct approach to customer segment which we don't have and complementary product mix to the customers that are common.

Bharat Sheth: So, Kedar if you can dive some colour on now, with pandemic, maybe at the fag end again and how the South-East Asia market will open up. So next year, what kind of whole consolidated number and EBITDA margin are we envisaging? And last - one core product that for which we had tie-up in respect of which we had done R&D So, is that ramping up?

Kedar Vaze: Yes, that is ramping up. Again, this is being expensive product, it is not easy to ramp up during the pandemic situation because it requires presentation to the clients and users and how to use and so on and so forth. So, we've had a stop and start and between the two waves of the pandemic, we were able to convert new clients. That business has started ramping up quite well. I think, next year, we expect it to touch INR 30 crore to INR 40 crore in annual revenue if everything goes normally.

Bharat Sheth: And the South-East Asia market, what's your sense on next year?

Kedar Vaze: So, In think, in South-East Asia market our basic product range and product type seems to be wel- accepted. It's a question of the supply chain particularly being disrupted during the pandemic.As I mentioned Holland Aromatics also has certain business in Indonesia, it will now help in local supply chain enhancement which will allow us to regain some of our lost market share. In a normal environment without any pandemic situation, I think we will restore our 10%, 12% growth rate in South-East Asia.

Madhav Marda: Yes, my question is again in respect to global RFPs, it was a bit tricky for us to bid. But now that the opportunities have started opening up, what has really changed, that now we can bid for these large global tenders, just wanted to understand on that?

Kedar Vaze: So, nothing has changed, we were always knocking on the doors. So, I think if you see the commentary, we've been talking about in the last three to four years that this is the opportunity of growth for us and I think finally, we have been able to initiate that and take it to the next level.

Madhav Marda: Okay, okay. Got it. And this new business like you said, we are targeting something like 5% to 7% of that global tender, typically margins on these kinds of contracts, are they similar to our existing business margins or are they like higher or lower given that it's a very large size contract?

Kedar Vaze: Typically, the gross margin level will be lower but the net margin levels would be similar because the typical volume and the kind of overhead per kilo costs and other benefits in terms of operating leverage. So, we are looking at it in totality where we don't see an erosion of net margin, we would see definitely smaller gross margin on a much larger base, so that will be typical scenario.

If you look at our current composite margin of 41%, it varies from 30% to upwards of 50%, between the small and the large products. And with the size of the global business, we probably look at somewhere around the 25% gross margin level. It will have to be product-by-product country -specific discussion. But yes, it will be on the lower end of our gross margin level but they will be much larger volumes of business with the shorter lead times and shorter inventory cycles. So, we anticipate that is a different kind of business.

Madhav Marda: So, it's 25% gross margins and EBITDA margins are like 15%, 16% or is there a bit more?

Kedar Vaze: We have no colour on exactly how much business, which business we will get. But assuming we get an average cross section of small and big businesses, we will be in ballpark 25% gross margin and 15% plus EBITDA margin. And it depends on the synergies with the rest of the business, if it is similar in the common raw materials, things like this, then we will have a further benefit in the EBITDA margins.

Madhav Marda: Got it. And last question is everyone has been facing the issue around raw material inflation, do you think Q4 will be able to pass through most of it or it's goes to -- like sort of the impact will last more into Q1 of next fiscal?

Kedar Vaze: I think raw material inflation is not static, it's a dynamic thing. There is continuous pressure even in this quarter and as we speak. So, we've been able to pass on some of it to the clients, some of that we are managing through the inventory management and inventory stocking that we have done. I don't have a specific timeline in terms of when the inflation will stop or how things will pan out in the future.

As of now, in the first quarter January-March, we should be in similar gross margin as the quarter three, that's our target and we will continue to push selling prices in line with the cost price increases and manage to hold our gross margin at these levels. However, if there is another bout of high inflation, it may not be possible to maintain the gross margins., We will come back on it in our business updates.

Vipul Shah: Just wanted to understand from your perspective, first of all, congratulations on this really brave step of considering bidding for this huge opportunity which S.H. Kelkar is looking at. So, apart from the fee, which you have mentioned in your business update earlier, assuming that our company is in a position to back the contract, will there be a specific additional plant requirement to be put up? So how are you looking at the CapEx for this?

Kedar Vaze: So, again, as I mentioned, it depends on the nature of business and the final award. The objective and the manner in which we are negotiating that if there is any additional CAPEX, then it would be something that will get amortized over the period of the contract and we will recover from the contract period. We expect not very large amounts of CAPEX because most of the plant and machinery and the requirements for this are already in place but in event they need us to put any dedicated facility in any part of the world or somewhere any sort of additional capacity for whatever reason then we will have that paid back through the contract period amortization.

Vipul Shah: So, what I understand is that if the contract size is say X amount, it can be catered to form our existing plants but if it's you say beyond X, then we may have to do some CAPEX depending on and as you said, we will be able to recoup in terms of our IRRs, right?

Kedar Vaze: Actually, in the geographies where we already have a plant or operations, there may not be a capacity constraint. But tomorrow since this is a global tender and let's say want me to supply 1,000 tons of fragrance in Argentina, then we will have to set up something to manage that supply chain and we will amortize those costs accordingly through the period of the contract. I believe in Indonesia and Europe, we have sufficient assets on the ground and no real or large investments required. For the other regions, particularly America and Africa, we may require some investment if such a business does arise but it will be discussed with them at that time from a CAPEX neutral point of view, all our proposals are based on zero CAPEX basis. So if there is a CAPEX requirement, we will have that as an additional cost to the manufacturing.

Nikhil Upadhyay: I think this question was raised earlier by a participant but I just want to have a follow through like, we've been saying for three, five years that we were trying to get in and break into the MNC customers and we were putting all the efforts but just to understand is it like now probably our scale has reached to a level or our balance sheet strength has reached to a level that we are being invited for such kind of deals? Or what exactly has changed that we are able to go and participate in the deals now? That is first. Second part is, do you see that probably whatever the outcome comes, do you see that more such inquiry levels could be coming up for the future, for Keva as a group?

Kedar Vaze: Yes. So, to answer your question in two bits. First is that it's a step-by-step development in three years ago, we got a small engagement which we started the business last year, which was a kind of annual potential of Rs. 1 crore. So, it was sort of test. Last year September, we won a local business which is ballpark INR 20 crore to INR 30 crore annualized revenue. So, I think the steps of qualification kind of have been taken through.

Nikhil Upadhyay: Okay. Secondly when you said consolidation of our acquisitions. One is like streamlining the processes and bringing the cultural and the R&D team on single page. But in terms of growth aspects when you probably did these acquisitions and how do you see that growth aspect in terms of consolidation? When you said one of the companies have Rs. 30 crore kind of a top line, another is a EUR 13 million kind of a top line, what kind of growth do you believe that probably can be expected, once our consolidation phase gets over, what kind of scale these companies should achieve? Or probably this kind of revenue these companies should be able to provide to Keva? How do you see that growth in terms of the consolidation phase? And secondly, on the margin profile, do you think there is enough opportunity to improve the margins in these companies as well?

Kedar Vaze: So, as a general case, the margins in the European markets are better than in the Asian markets in almost all product categories. So, we are adding that additional margin leg to our overall product portfolio. We're also dividing our R&D expenditure over larger base of customers and products, which help us in terms of upper, below or revenue cost of R&D to amortize it over a broader base. So, these benefits both the companies which we have acquired as well as our current R&D team to monetize their research at a faster timeline. Having said that, the opportunities are different, the global opportunity we have already talked. Plus, we are looking at European market opportunity through these two acquisitions of CFF and Holland Aromatics.

We believe that the European market like most developed markets has undergone a major transition point in the pandemic and we would see a spate of new type of products particularly going direct to customer through the digital platforms, which is the growth leg which CFF is already benefiting from and we see similar growth in Holland Aromatics and combining these we can bring further operating efficiencies. And then further growth is midsize and smaller customer a new brand business in Europe.

The other acquisition is in the food space, I think we are at the tip of the iceberg as far as QSR and food space in India is concerned. If I have to pin-point in terms of revenue growth opportunity that is a single largest exciting opportunity in terms of potential runway because we are at this moment INR 30 crore and the business industry is already INR 2,000 plus crore and growing at a very fast pace.

Nikhil Upadhyay: Okay. Last question, Kedar, like if we go back to our previous years' calls, and one of the thing was that the Company had invested a significant amount in R&D and had created a big pipeline of products. And that is why you had mentioned that probably the R&D costs will remain flat or with these acquisitions like CFF and subsequent the two acquisitions which we have done, how large does the R&D molecule pipeline or the developed product pipeline become for us? Is it significant enough?

Kedar Vaze: They are not innovator companies as far as R&D is concerned, they are more users. So, we have added more markets for our R&D molecules in European market. For additional R&D cost for us is actually faster monetization of all the products that we have been able to build and continue to build.

Viraj Kacharia: Just two questions on the large global tender, so the customer, who are we sourcing from currently? I mean, is it one single supplier, or any perspective you can share there? And broadly in terms of approach, post Holland Aromatics acquisition. So, if I just want to understand earlier, we're trying to make a similar approach to PFW a couple of years back and then kind of rectify what we are thinking. Just trying to understand how differently are we approaching with this acquisition, and then the scale up?

Kedar Vaze: So, the first question on the global tender, currently the global company is buying from multiple vendors, I don't have the full details but I guess that it's four to five vendors on a global basis. And they will add few vendors in the discussion. The main thing is that the vendors need to be approved in terms of quality systems and process and we are now sort of a qualified vendor to be allowed to be bidding. So that's the first key milestone to get into the FMCG global system.

The second question was in terms of acquisition in the Netherlands. So, we had done the PFW acquisition, which was largely in aroma chemical and that has helped us to start to build our R&D capabilities, plus the relocation of that plant into Mahad. Holland Aromatics is now in the Formulation Fragrance side. So, we will be catering to the demands in Europe with our local manufacturing. So, the intention is to continue to grow that on a EUR 7 million base together with the CFF and our objective is to reach sort of a top line of EUR 100 million in Europe over the years.

Viraj Kacharia: Okay. Second question is, when I look at ASEAN market for us, other than Indonesia, which will be the larger markets what will be the perspective in terms of future growth?

Kedar Vaze: I think South-East Asia market is all the countries in ASEAN, they have collectively, almost a 400 million population ballpark and we expect it to be roughly the size of India in terms of opportunity. So, the size of the businesses are large. We are relatively small player, but there is a huge upside on the total quantum of business that is happening in the South-East Asia market or ASEAN market today.

Viraj Kacharia: So, for us, what will be the annual business we will be doing in from ASEAN?

Kedar Vaze: At the moment, it's a ballpark $10 million.

Viraj Kacharia: That's including – I mean, obviously, including Indonesia.

Kedar Vaze: That's right.

Bharat Sheth: Hi, Kedar, just take one more perspective of this global tender when we are bidding, we have bid, so we may be aware that each region may need to put up CAPEX and how much CAPEX, if at all, is required. So, what kind of ROCE target that are we looking if we were in this business?

Kedar Vaze: I think the ROCE target would be higher than 20%, we will maintain 20% cut-off.

Moderator: Thank you. The next question is from the line of Mr. Bhavya Sonawala, an individual investor. Please go ahead.

Bhavya Sonawala: So, my question was, are we seeing any inquiries or are we working with any new brands who offer direct to consumer products the new fast growing brands? Are we seeing any inquiry or working with any of them?

Kedar Vaze: Yes, actually we are working with many of them on different products. So, it's a normal part of our business growth and engagement. I think in the recent past, this business side has got higher momentum. There is a good amount of business momentum that the D2C has seen as a result of the recent IPO and heightened awareness in the investments that are going in the D2C brands.

Bhavya Sonawala: Okay. Thank you so much. Sir, last question is, when we said in recent two, three quarters that we had a couple of new wins. So, are these new wins coming from a particular part of the business or is it scattered across, are they small players, are they MNCs, what kind of players are they?

Kedar Vaze: We've large number of new wins, what we have announced is only win with the global MNC last year and that's the one which has led to the RFP, which we are now participating.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to the management for closing comments.

Kedar Vaze: Thank you. I hope we have been able to answer all your questions satisfactorily. Should you need any more clarifications, know more about the company, please feel free to contact our team of CDR. Thank you once again for taking the time to join us on this call.

Moderator: Thank you. 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.

-End-

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