



May 31, 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 Q4 & FY 24 earnings conference call for investors and analysts organized by the Company on Tuesday, May 28, 2024 at 05:30 P.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

Q4 FY24 Earnings Conference Call Transcript

May 28, 2024

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

I now hand the conference over to Mr. Mit Shah from CDR India. Thank you and over to you, sir.

Mit Shah: Thank you, Sagar. Good evening, everyone and thank you for joining us on S H Kelkar & Company Limited's Q4 and FY '24 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 of the management, following which we will open the forum for our Q&A session. Before we begin, I'd like to point out that certain statements made on today's call could be forward looking in nature and a disclaimer in this effect has been included in the earnings presentation shared with you earlier.

I'd like to invite Mr. Kedar Vaze to make his opening remarks. Thank you and over to you, sir.

Kedar Vaze: Thank you. Good evening, everyone and thank you for joining us on this Earnings Call today. I hope you have gone through our results document, which were uploaded to the exchanges earlier.

I'm pleased to report that we have delivered a strong financial performance throughout the past year while witnessing a subdued demand scenario in the domestic FMCG sector. Our performance was supported by a revival of demand from midsized and smaller customers, traction from new accounts and steady performance in the key international markets.



Our core European segment has reported consistent positive results, showing healthy revenue growth and strong gross margins and EBITDA margins. Despite a generally subdued demand environment in the European region, we have sustained our margin performance during the quarter, aided by various strategic initiatives. The region which accounts for around 27% of our business has also contributed to our growth trajectory particularly as the recovery of business supported by both Creative Fragrances and Flavours and Holland Aromatics. These results underscore the resilience and strategic importance of our European operations for the group.

In a key business development, we are extremely pleased to announce that we have gained significant sales traction from the prestigious global MNC account. We now have a healthy order book for FY '25 for the customer for multiple products across a few categories. This amounts to more than double the value of the previous financial year. We expect this relationship to continue to grow over the years marking a significant milestone in our strategic global expansion plans and reinforcing our vision to become one of the top Fragrance and Flavours companies globally.

Our 100-year journey has been defined by a pursuit of innovation and quality, enriched by rich experience and significant investments in R&D capabilities. These investments have sharpened our ability to creatively deliver solutions tailored to the customers' preferences. Over the last year, we have significantly strengthened our talent pool, bringing in high-quality senior personnel from the industry to build our capability for growth in the next leg of growth. Our investments in infrastructure such as Creative Development Centres have further solidified our foundation, ensuring we are well equipped to meet the evolving demands of the market and continue delivering superior growth.

Regarding our segmental performance within our core Fragrance vertical, we have strengthened our position in the well-established Indian market while also achieving growth in various new export markets. Our teams are particularly active executing strategy to penetrate existing and new markets with particular focus on Southeast Asia, Africa, United States and other regions.

As you may recollect, the company had a '3I' focus strategy targeting key markets in India, Italy and Indonesia. We have solidified our presence in Italy serving the European region, continue to maintain a strong presence in India and with the new Greenfield facility commissioned in Jakarta, Indonesia during this quarter. This new facility is now operational and strategically poised to further develop our foothold in the key Southeast Asian markets, completing our '3I' strategic initiative, which we took in the last five years.

Our Flavours segment also delivered an encouraging performance this quarter. As we mentioned previously, we encountered significant challenges in our Global Ingredients business in the past years. Our strategic response included



implementing a comprehensive backward integration project in India and focusing on improvements of productivity and cost reduction, which has significantly transformed this segment this quarter. These efforts have reversed losses, resulting in a profitable turnaround, I would add on a sustainable basis.

Coming to the update on the fire incident at our Vashivali fragrance facility, we have shifted production to alternate sites to ensure business continuity. This has enabled us to resume full service and maintain adequate capacity to meet all customer demands. While we expect some impact on Q1 FY'25 performance due to this event, we believe we will be able to offset this in the subsequent quarters.

Regarding the financial impact of the fire, the company has a comprehensive insurance coverage, including for loss of business, loss of profit, which fully covers the damages incurred. The insurance company is currently assessing the cause and extent of the damage. Therefore, we would like to avoid speculation on this account in today's call. Once we have clarity, we will inform the exchanges appropriately and take all questions and answers in the separate call on this matter.

To conclude, our immediate focus remains on navigating the aftermath of the fire and efficiently ramping up operations on alternate sites, including the newly commissioned facility in Indonesia, which will support all our exports. Our turnaround initiatives coupled with recent new wins and increasing demand are poised to position us for a strong performance in FY'25.

Thank you and I look forward to discussing our results in more detail. On that note, I would request the moderator to open the forum for any questions or suggestions you may have.

Moderator: We will now begin the question and answer session. Our first question is from the line of Bharat Gupta from Fair Value Capital.

Bharat Gupta: So first, congratulations for a good set of results. A couple of questions from my side. So first, with respect to the RFQ. So, you've mentioned in the presentation that there has been increase in the order book with respect to the MNCs for the current fiscal year. So, if possible, can you quantify the amount, like what kind of order book we are building in from them? And going forward, what kind of a run rate we want to execute for FY'25 and beyond.

Kedar Vaze: So, at the moment, for FY'25, we are at a run rate of \$10 million plus sales projected for the year. We are continuing to work with these projects. And as we have indicated sort of a \$100 million total available potential; \$10 million of that is already under contract and we will continue to expand this in the years going forward.

- Bharat Gupta:** Also, with respect to our Indonesian unit, so there has been a mention that like we have recently opened up. So, what kind of a capital deployment was there in that particular unit? And what kind of asset turns we are anticipating out of it?
- Kedar Vaze:** So between \$4 million and \$5 million was the capital investment in the unit, we are expecting to have full production from June.
- Bharat Gupta:** And what kind of asset turn can we anticipate?
- Kedar Vaze:** So, we have ballpark \$10 million business, which it will service on an immediate basis and the additional growth that it will service in the export other regions. So, \$10 million to \$12 million in revenue will migrate to the Indonesian factory in the first year.
- Bharat Gupta:** So, it's primarily towards meeting out the order requirement from the global MNCs? Or we have some tie-ups with other institutions out there as well?
- Kedar Vaze:** So, we are already doing a business of more than \$10 million in the Southeast Asia region, in ASEAN. and having this facility within ASEAN makes it duty free and easy for accessing the ASEAN market. We built this as one of our next growth pillars. Outside of India, we see Southeast Asia is a good growth region for the global Fragrance and Flavours market.
- Bharat Gupta:** Sir, on the CFF front there has been a good jump in the profitability. Top line has remained muted in terms of the single-digit growth. Currently, what kind of utilization levels we are working upon both CFF and Holland? And secondly, like in terms of, is there enough headroom for growth if we are utilizing the assets at the optimum levels?
- Kedar Vaze:** Yes. So, from a capacity point of view, if you look at the results, we have lost or reduced some of our tolling business in the last couple of years. So, we have additional capacity available for our core business. We are about, I would say, 85% capacity utilization in the European context. Therefore, for FY '25, we have no challenge for growth. We should be able to grow 10% thereabouts without any additional capacity constraint. But on a three-to-five-year horizon, we would need to invest in the European fragrance capacity to continue to grow.
- Bharat Gupta:** Right. So, do we have any kind of capex plans at present like beyond for investing in the European subsidiary?
- Kedar Vaze:** So, the typical capex would have been 3 million to 4 million, similar to the Indonesia factory. We are now evaluating this capex plan in a view to understand if we want to build some additional capacity to have support for the Middle East and certain markets where access to the market and the shipping lines and things like this is becoming difficult. So North Africa, West Africa and some of the Middle Eastern

countries, we are trying to see if we want to have also opportunity to service them through our European operations.

So, we will build capacity, expect to be EUR3 million to EUR4 million. That's the sort of expectation on the investment. It won't be large. We are evaluating and we will revert back once there is any finality on that.

Bharat Gupta: And sir, regarding the jump in the gross margin. So, can you help us understand what kind of reasons led to such a sharp increase in the overall gross margins?

Kedar Vaze: I think a couple of reasons. One is the Global Ingredients, which was negative, it has started to deliver much stronger gross margins due to the backward integration and cost reduction that we have undertaken. In addition, the raw material buying strategy that the company has adopted with buying inventories at a lower price that has resulted in a better realization through the year.

Bharat Gupta: Last question from my side, if I'm allowed sir. With respect to our Global Ingredients business itself. So, I believe we have invested close to around Rs. 150-odd crores in the business. And how do we look at the current business scenario at a time when China has added capacity over the last few years because our primary focus was towards backward integration because of the volatility in the RM prices. So, any colours about what kind of a trend you are seeing across your RM chain and the current business scenario with respect to the Global Ingredients side?

Kedar Vaze: So, I think Global Ingredients side, we are fully backward integrated. We have now an entire supply chain within Indian operations or partners in India. So, this is helping us to be extremely cost competitive. We have more than 50% of the market share of the Global Ingredients globally. So, we are the market leader. And we will continue to hold this position vis-a-vis the Chinese competition or other competitors as we have strong presence in these products with a long history and a good brand and quality. So, we are the market leader. We continue to keep our market share.

Bharat Gupta: Despite the softness in the RM prices coming out from China, we plan to remain profitable for FY'25 as well?

Kedar Vaze: Yes. So, we have been continuously improving our productivity, efficiency for the last 30 to 40 years on this product range that we are operating. So, we believe that we have very good process efficiency, good productivity. The main issue in the Global Ingredients was the raw material dependence on China, which we have cut, and I believe that we are in a very strong position to supply to the global markets.

In addition, given the geopolitical scenario, all major customers want to have alternate suppliers and do not want to depend on solely Chinese origin materials.

Bharat Gupta: Right. So, China Plus One strategy can work out in favour for us. Any order book which we maintain for this segment alone?

Kedar Vaze: I think the segment is about Rs. 100 crores market and we are more or less 60% or 70% of that.

Moderator: The next question is from the line of Darshil Jhaveri from Crown Capital.

Darshil Jhaveri: Sir, we had a very good year coming here, FY'24. What kind of revenue growth and margins will you be looking at for FY'25 and FY'26.

Kedar Vaze: So, we are continuing to be bullish on our growth despite the incident in April. Our long-term strategy, our product development and R&D continues unabated. We are still indicating a 12% CAGR growth for this year and next couple of years in midterm across the global business. So domestic as well as European and Flavours segments.

Darshil Jhaveri: Fair enough, sir. And the margins because now with the new capacity as well as backward integration, so are currently 16% we've done in FY'24. So, will it cross that level in FY'25 or be in the similar level, sir?

Kedar Vaze: I think at the granular gross margin, there is no challenge to maintain the gross margin that we have today. On the operating side, due to the changeover in the BCP and the additional operation costs, there will be some effect on short term in this quarter, next quarter. But on the longer term, there is no negative impact on either gross margins or product growth or revenue growth.

Darshil Jhaveri: So, 16% is sustainable margin?

Kedar Vaze: Yes.

Darshil Jhaveri: And sir, just wanted to know, sir, in terms of any demand scenario environment, do we see some slowdown or some risks that can impact our growth.

Kedar Vaze: There is always current scenario, geopolitical risk if some of the spillovers or some of these global events happen, election risk in various countries and geographies. So, all of these are macro risks, which all of the investor community is aware of at large.

Specific to our business, we do not see any additional risk. There's no widespread recession. We would imagine that we have a continued growth of demand. There will be challenges in the first quarter and few months when we streamline our supply chain from the new factories. So that will dampen some of the first quarter or first few months results in terms of deferment of sales. We are looking at increasing lead time from six, seven days to two or three weeks in terms of our delivery schedules, which means that the first quarter will have a 10-day spillover

into the second quarter and so on and so forth. Apart from that, from a demand side, we don't see any negative impact, either macro or internally or externally.

Moderator: The next question is from the line of Chintan Chheda from Quest Investment Advisors Private Limited.

Chintan Chheda: Congrats on delivering consistent set of numbers. Sir, my first question is related to margins. So, do you see any further scope in improvement of our gross margins? And secondly, with this Malaysian facility coming up, what could be the absolute savings of catering to that demand in that Southeast Asia market? And lastly, with this Vashivali production shifting to adjacent facilities, so can you just quantify what could be that impact for a couple of quarters?

Kedar Vaze: So, three questions. First is margin. I think the margin at current 44%, 45% gross margin will be sustainable. We will look at maintaining that kind of margin. There is no further expectation of improvement of margins in this scenario on a longer-term basis. So that's one.

Secondly, the question of Malaysia, actually the facility is in Indonesia. But to answer your question, the Southeast Asia facility in Indonesia will start in June. There will be not much impact in terms of the current business, the margin and the operation cost will be the same as in Indian factory. What we expect is that the growth rates will be faster because the speed to market and the customer confidence on our local deliveries is higher than deliveries coming in from two weeks or three weeks lead time. So, we expect that we are able to cater to bigger clients, including global MNCs through this facility in the region. So, our growth rate for Southeast Asia should go up post this facility starting up.

To answer your impact of Vashivali, I think the full impact and the assessment, as I mentioned earlier, is still pending. We expect to complete that in the next 7-10 days and drop concrete plans of restarting the factory. As of now, the alternate factories and sites have begun production from first week of May. In fact, on 30th April, the first invoices have gone to the clients. So, we are in the rapid phase of ramping up.

To that question of, what is the impact on the first quarter, obviously, there is a deferment of some of the sales due to the increase in lead times, some of the sales will get pushed to the second quarter and so on and so forth. We hope to have the factory up and running in six months' time and then start the production at Vashivali thereafter.

Chintan Chheda: Got it. And sir, secondly, on the tax rate, when I look at our tax rate for this and last year, so it is of little bit on the higher side when you look comparatively to the earlier years. So, any particular reasons for that? And for next couple of years, how should we look at our tax rate?

- Rohit Saraogi:** So, the tax rate, what you see now, there is an increase because of our deferred tax reversal, which is a one-off. On a normalized basis, our tax rate will be 29% to 30%.
- Moderator:** The next question is from the line of Jatin Damania from SVAN Investments.
- Jatin Damania:** First, in your initial remark to the previous participant, you indicated a growth rate of 12% in terms of revenue. Just wanted to understand, is 12% inclusive of the MNC order and the contribution that we will get from the Jakarta facility?
- Kedar Vaze:** The Jakarta facility will only be migration of the business from India to the Jakarta facility that will free up capacity in India, which we will use for Middle East and Indian domestic servicing the customers in India and the Middle East Africa regions. So, it's an additional capacity in the current scenario that is timely, and it will help us to further improve our service levels in Indian basis.
- Jatin Damania:** Sir, that means that this additional capacity will contribute to an incremental revenue, right? So, 12% growth rate on the base business seems to be little bit conservative as compared to the order book guidance that you have given in terms of the MNC and the Southeast Asian market opportunity that we are seeing it.
- Kedar Vaze:** I think on the longer term, the opportunity is there. The challenge we are facing through the incident, we want to be conservative and give you what is the scenario today. With the full supply chain restored, we can look at much higher growth rates going forward.
- Jatin Damania:** I mean, since you've already started supplying from the month of May, I mean end of April, so the loss was only for 10-20 days, if I'm not wrong. But from June onwards, we will be back into operation. So, I guess next 9 months will be good for us as compared to the first quarter.
- Kedar Vaze:** I understand that. But the problem is that this year, we will not clock 360 days because these 10 days will go in the first quarter of next year, the sale of Rs. 30 crores-Rs. 40 crores, which would be normally 10 day revenues.
- Jatin Damania:** And sir, second question, if you can help me in understanding the MNC order, definitely, you said the order book has doubled as compared to FY'24. So, in the current revenue of FY '24, what was the contribution from the new MNC client?
- Kedar Vaze:** So, as I mentioned, this year, we expect to be more than \$10 million. So last year, it was half of that.
- Jatin Damania:** And the margins will be at the higher end as compared to what we are delivering right now, right, on the broader basis?

- Kedar Vaze:** Yes. On the net margin basis, these are good products, so they are high-volume throughput products. So, we have low operating cost per kilo but the gross margin at a per kilo level will be lower. The net margins are the same as a normal business.
- Jatin Damania:** Net margin. So, sir, now with the improvement in the profitability and definitely, you will see a free cash flow also getting free. So, I mean, how shall one look at the debt reduction schedule.
- Kedar Vaze:** So, we are at ballpark debt between Rs. 500 crores to Rs. 550 crores in the last couple of quarters. We expect that the ongoing capex's that we need to incur to restore the facility while the insurance covers it, there will be some net cash flow issue where we need to fund before the final payout from the insurance. Despite that, I think our net debt level should remain below Rs. 550 crore throughout the year and operating revenue and profit will bring the overall debt down as we go through the year.
- Jatin Damania:** Is it possible to assume that we close the year below Rs. 500 odd crores because the capex for the Europe will probably take another six months or 9 months for us to decide whether to go ahead with that capex or not.
- Kedar Vaze:** Yes. No, I don't want to speculate on the year-end until we have a clarity on the claim and survey of the site. Once we know our capex plan and recovery plan in the Vashivali factory clearly, we can put out the end of the year basis at the time of our first quarter results.
- Moderator:** The next question is from the line of Harsh Shah from Dimensional Securities.
- Harsh Shah:** Yes. Just one question from my end. Since you have already started supplying to this major MNC, which is definitely a breakthrough deal for us. Besides that, are we in this in active discussion with any other MNCs or will it open up those for other MNCs to do business with us. Can you give some highlight on that?
- Kedar Vaze:** The short answer is yes, we are engaging with multiple clients. We have been engaging with them on a number of years and we continue to engage with other MNC, global MNC as well as large corporate clients in both India, Southeast Asia, Middle East and Europe.
- Harsh Shah:** Okay. And another question is, have you seen any benefits of China Plus One, it's been a couple of years since this entire discussion around China Plus One started. So, are we seeing any benefits out of that? And at the same time, since China is boosting up their capacity? Are we facing any competitive pressure from them in our Southeast Asia or European market?
- Kedar Vaze:** The only direct competition product for us is the Global Ingredients business, whereas I alluded, we have majority market share. We have more than 50% market share of the product. We have taken the step to be most cost competitive on a

global basis. So, we are not threatened by Chinese competition from a cost point of view or pricing point of view. We believe we have one of the lowest cost producers of these products in the world.

Harsh Shah: Okay. And sir, what is the outlook on the raw material cost? I mean, if you compare the Q4 FY'24 and the prices currently, are the prices stable and what is the outlook going ahead?

Kedar Vaze: Prices are stable with, I would say, upward movement, slight improvement of prices since, I would say, February or March when they were at the lowest level.

Moderator: The next question is from the line of Bharat Sheth from Quest Investment.

Bharat Sheth: Congratulations on good performance. So Kedar, to understand our business, I mean, growth from, say, 12% up but barring this, I mean, earlier, we had I had an understanding kind of key 12% CAGR growth and plus MNC new contracts. So, forget this year, I mean but then how do we see that business, our top line growing? So, if you can give a little more colour. So, this year, of course, as you said, we will maybe be losing Rs. 40 crores-Rs. 50 crores kind of a sales but barring that, how do we see our growth rate.

Kedar Vaze: Our growth rate, like we mentioned, the business growth rate is linked to the product development and capability to accept and take new business. We have been steadily increasing our spend on the R&D and product development and including this year, we will continue to spend on future growth. We will look at additional geographies beyond India for growth. So Southeast Asia, clearly, with the factory, which we set up this year, we will look at a much faster growth rate there. Global Ingredients investments have also -- looking where we are looking at a faster growth rate in the near future.

And we are expanding our operation and footprint in Europe and we have started some inroads or some basic work in the US market for the next phase of additional growth, saturated or market where we have good market share, we see an 8% to 10% growth rate on a sustainable regular CAGR basis and additional geographies, additional customers or new customers where we don't have an existing business will ramp up the growth rate to 12% and above in terms of a CAGR growth.

Bharat Sheth: And second question, earlier, we were looking barring this fire incident, that we were thinking that gross margin will sustain at a higher level, I mean what we have reported and playing out some kind of operating leverage, but whenever that operating leverage will start playing, kicking in from the second half, do we have some kind of a room of a higher EBITDA margin and which was our, I mean, kind of a thing we were expecting?

Kedar Vaze: I think quarter-on-quarter, we would have seen the EBITDA margin improving as our operating leverage on the factory and on the sales and cost basis. So, we have continuously improved not gross margin but at the EBITDA level. And we are extremely confident of continuing to do that once our Vashivali factory is restored in the later part of this year.

Bharat Sheth: Yes. So, over a long medium term, our margin could have a room to grow higher, correct? Is that fair understanding?

Kedar Vaze: That's right.

Bharat Sheth: Okay. And coming on the deleveraging the balance sheet, of course, otherwise, we had built up a good amount of low-cost inventory earlier as indicated. So, once we start consuming and bring down the inventory at normalized level. So, what kind of additional cash flow do we expect and how that can help us in improving our debt level if this new capex will not happen, I mean, at Vashivali.

Kedar Vaze: So I mean I will give the answer without any effect of the incident. In a normal course, we would have reduced the inventory plus free cash flow of roughly Rs. 150 crores in the year. At this time, I expect the same quantum in absolute number. But cash flow effect of that may be deferred because we will pay first and then some part of the capex will be reimbursed by the insurance. So, we need to understand that. As you've alluded, inventory was also much higher level than normal levels. So, we had maybe almost Rs. 50 crores extra inventory at the end of the year last year as compared to the year before.

We also had a bigger growth trajectory. So, both of these would have been not getting normalized through the year. So, we are on track for that. We will see that almost Rs. 100 crores reduction in inventory through the year as we continue our operations. And on the actual cash flow of that, we will have to little bit do the working on the insurance and negotiate with the insurance teams to expedite cash flows.

Bharat Sheth: And coming with this global MNC account opening. So earlier, we did not have any large reference point. Now with this global MNC account opening up and we have a good reference point. So, are we expecting that some kind of expediting our earlier approval than now?

Kedar Vaze: Yes. So, we continue to work with the global MNC and a few other larger corporate clients. That work is continuing. The challenges that we face are more tactical in terms of getting quickly the capacity on stream. On a strategic basis, on a midterm, multiyear basis, we are continuing to engage with our clients and R&D and ensuring that our product pipeline is continuing.

Bharat Sheth: The last question on opening of this U.S. subsidiary. How is it going to really help?

- Kedar Vaze:** So obviously, there are some large MNC which are headquartered in the U.S. So, we are looking at that in the next phase of growth to address these large MNC companies headquartered in U.S. as a further plan for growth in all the markets.
- Bharat Sheth:** Are we seeing some kind of a benefit? I mean, early benefit or still itself this is too early?
- Kedar Vaze:** No, we are building the capability. It is basically the next phase of growth, we will need to build this in the U.S. market as well because the global MNCs are operating in all markets. U.S. market is normally one of their big markets. So, we want to keep our presence in the U.S. and European market which is more than, I would say, more than 50% of the global market share.
- Bharat Sheth:** And last question for Rohit. Sir do we, Rohit because of this Indonesia, we have any financial tax benefit or anything?
- Rohit Saraogi:** No, so for financial benefit, there is something, but which is not that substantial. The idea of setting up an Indonesia factory is part of our '3I' strategy where speed to market is critical. Today, we are servicing Southeast Asia from India and that will give us further lag in the growth. And so it comes under ASEAN region. So we've got a duty-free benefit from serving from Indonesia as well.
- Bharat Sheth:** Okay. That will make us more competitive?
- Rohit Saraogi:** Yes. Yes.
- Moderator:** The next question is from the line of Dilip Kumar Sahu from Enphase.
- Dilip Kumar Sahu:** Yes. So now being an investor for six or years, I had a concern regarding the volatility that we have gone through, particularly in the first 4-5 years in '18 to '22, '23. Last two years have been, of course, quite stable. Our volatility emerged from two areas. One was the revenue fluctuation which came primarily because of us losing market share in the small and mid-sector. And second was the raw material price fluctuation and that impacted the gross margin. My question is the current uptrend we see in the small and medium enterprises. What has fundamentally changed how are we able to gain this market share? And the raw material, we had initiative to move from China, how much of impact it is having on the profitability? These are my first two questions.
- Kedar Vaze:** So, I think the Global Ingredients part of the business is directly reflecting the change away from China and you can see it in the results of that business. On the overall gross margin of the business, there is not much impact. It would be less than 1% of moving away from China. But it's also important that we are not having supply chain shocks because we have domestic suppliers and local vendors for these products. So that is the additional benefit by moving away from China supply.

To your first question, the small and medium customers, we have always been servicing throughout the 100-plus years of our existence and we continue to service. We are well penetrated in this market. Start-up companies, e-commerce companies, many of the new brand companies, they are aware of our company, and we have a very good marketing team addressing their specific requirements. So, this is how we have continued to grow our small and midsized customers and we will continue to support them.

Dilip Kumar Sahu: Yes. But we are making strides there, right? We are improving our market share that has been in your commentary. So, I'm just trying to find out, is there something fundamentally changed in the small and medium engagement that we have?

Kedar Vaze: The fundamental change is the advent of e-commerce, there is more people who are now coming into SME on the FMCG side, kind of new entrepreneurs. There was a time when, I would say, 70s, 80s when new entrepreneurs started in FMCG. And in the post 2005, couple of decades until maybe early 2020s, there was a scenario where only the bigger FMCG companies continued to grow and there were not a lot of start-ups or small companies.

I think as a result of some of the high visibility, listings and e-commerce taking central stage in many consumers' mind as well as entrepreneurs' mind, a lot of entrepreneurs who are starting new branch or small branch or online branch, are looking to put products with kind of FMCG Fragrant or Flavoured products on the market. That has helped us to start again on the small and midsized companies. This is a more general industry trend rather than specific to our company.

Dilip Kumar Sahu: Sure, sure. My second question was, for so many years that I'm observing, we are between that 9% to 12% kind of a growth rate, sometimes less, sometimes more. I mean, I'm trying to figure out, is there a possibility of breaking free of this 10%, 11%, 12% kind of a growth rate and go to a mid-teen, high-teen kind of growth rate? Is there a possibility? Because there are various reasons, sometimes you lose business and certain client base, sometimes your raw material fluctuations, sometimes we have incidents like the fire, etc. But net-net, we are at a 9%, 10% kind of a growth rate, including our acquisitions across.

Kedar Vaze: So, I think on the last two years, we have continued to grow 12% and higher CAGR without any significant acquisition or I would say, organic growth of the acquisition. So, while we may have had acquisition, we are talking about the incremental growth on the acquisition and not the original value. So, we have done more than 12% CAGR in the last two years. As you mentioned, the fire incident, we are still early days. We will be able to recover and service our clients on a regular basis.

So, there is a part where I think the 12% can slowly inch up but it's not an industry where suddenly you can grow at 20%, 25%. It's a continuous innovation industry. So as time goes, we are building up capability to do more, faster growth. And we

are seeing the results of that year-on-year as we grow faster and faster and we are able to put out a 12% CAGR and that 12% will become 13%, 14% and so on and so forth. But it's not an industry where you can say 12% can become 25% or 20% overnight.

Dilip Kumar Sahu: Sure, sure. No, I was looking at mid-teens but fine, I understand. My last question is regarding the R&D investment we are making, where exactly is it directed? Is it to the new markets like Indonesia and ASEAN countries? Or is it Europe or U.S. where we are having a new setup?

Kedar Vaze: So, we have the R&D capabilities being built across three regions, which is the Italy, which is Europe, India and Indonesia all the three regions we are supporting with R&D and sales and development and local manufacturing.

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

Pradeep Rawat: I have two questions. First is regarding our utilization at Indian facilities. So, what is our utilization at Indian facility?

Rohit Sarogi: Which facility?

Pradeep Rawat: Indian facility, both.

Kedar Vaze: We are not able to comprehend your question.

Pradeep Rawat: Yes. I was asking about the utilization rate at the Indian facilities.

Kedar Vaze: Yes. So, at the moment, given that the Vashivali factory is not operational fully, we have shifted the production to the two sites, consolidated our Flavours site into one. So, our capacity utilization is excess of 85%.

Pradeep Rawat: Okay. And my next question is regarding the industry trends. So, what are the current industry trend? And what are your outlook for Fragrance and Flavours?

Kedar Vaze: I think the industry trend is quite positive. There is a sense of sort of calm before the storm in terms of the growth. A lot of the rural markets or the traditional FMCG is seeing slow uptick. I believe that post the election, the domestic uptick will resume. Internationally, we are, of course, not seeing any slowdown and our business continues to grow, both on Flavours as well as Fragrances.

Moderator: The next question is from the line of Rohit from Samatva Investments.

Rohit: I just had one question. On the European demand, I just wanted to understand both for Flavours as well as Fragrances, what has been the demand scenario in Europe? And any new geographies that we are planning to get in the European region? So that's my only questions.



- Kedar Vaze:** So when we talk about Europe, we are largely talking about Italy and Netherlands as the first place where we have our operations and our demand. We have been expanding the demand into further geographies like Germany and adjacent countries. East Europe and Germany is now a significant target for us to expand our business in Europe.
- Moderator:** The next question is from the line of Madhav Agarwal from SG Investments.
- Madhav Agarwal:** I just had a question on the order book. You indicated the 10 million number. I just wanted to confirm, would that be USD or Euro?
- Kedar Vaze:** USD.
- Madhav Agarwal:** And so, this would be executable over what period, sir?
- Kedar Vaze:** This is the order book on an annual basis.
- Madhav Agarwal:** For the next year, what kind of growth can we expect in the order book?
- Kedar Vaze:** So, we have been working on a multiyear contract in engaging with these clients. Our entire expected potential is \$100 million. Of this, the \$10 million is what we have already bagged. We continue to work with them and continue to engage for additional business.
- Moderator:** The next question is from the line of Ganesh Shetty, who is an Individual Investor.
- Ganesh Shetty:** Congratulations, good set up number. I just want to have one clarification regarding Vashivali, whether the learnings from this incident have been transferred to other manufacturing units, whereas we can make our company BSS strong from all respects. And if you could throw some light on this.
- Kedar Vaze:** Yes. So the kind of learnings from this and the net improvements have already been initiated and they will take place as we go along, I mean, operationally and in terms of infrastructure capex as required. So, all of that has been done.
- Ganesh Shetty:** And the Flavours division of the Vashivali location, whether that is intact and working in full capacity, sir?
- Kedar Vaze:** That's correct. The Flavours division is intact and working in full capacity.
- Moderator:** Thank you. Ladies and gentlemen, we will take that as our last question. I would now like to hand the conference over to the management for closing comments.
- Kedar Vaze:** Thank you. I hope we have been able to answer your questions. Should you feel, need for any further clarification or would like to know more about the company, please feel free to contact our team or CDR India. Thank you once again for taking the time to join us on this call.



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

-End-

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