February 10, 2023

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 Earnings conference call for investors and analysts with respect to the financial results for Q3 and nine months ended December 31,2022 organized by the Company on Friday, February 03, 2023 at 03:30 P.M. IST. The audio recording and transcript is also available on the website of the Company.

You are requested to take the same on record.

Thanking you,

Yours faithfully,

For **S H Kelkar and Company Limited**

ROHIT SARAOGI

Digitally signed by ROHIT SARAOGI
Date: 2023.02.10 16:41:07 +05'30'

Rohit Saraogi
Company Secretary & Compliance Officer

S H Kelkar and Company Limited
Q3 & 9M-FY23 Earnings Conference Call Transcript
February 03, 2023

Moderator: Ladies and gentlemen, good day and welcome to the SH Kelkar and 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 "*" then "0" on your touchtone phone. Please note this conference is being recorded. I now would now like to hand the conference over to Mr. Anoop Poojari of CDR India. Thank you and over to you Sir!

Anoop Poojari: Thank you. Good afternoon everyone and thank you for joining us on SH Kelkar and Company Limited's Q3 & 9M FY2023 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: Good afternoon everyone. We understand that our performance for the quarter has been poor, and I would like to take this opportunity to address the key issues and outline the action plan going ahead.

During the quarter, our performance was impacted by a notable decline in revenues from Global Ingredients division. This division has been facing various challenges in recent times including impact of raw material price inflation and dependence on China for the raw materials. This has affected its competitiveness in the international markets. In the earnings presentation, we have shared the results of Global Ingredients division separately as a result to give a proper and a clearer picture. To address these challenges faced by the Global Ingredients division, the company has developed processes for complete backward integration in India and is evaluating collaboration or partnership with specialty or agrochemical companies to increase its competitiveness. This will help reduce the overall cost for the product and make the product competitive. The dependence on raw material supplies from China will also be mitigated. We have also initiated a farmer development program through Keva Aromatics, promoter owned company, to further reduce dependence on China sourcing and cultivate aromatic plants like Geranium and Vetiver in India. This will create sustainable and cost-effective supply chain working closely with the local farmer. This security and reliable raw materials will support our long-term business goals.

Moving on to an update on the European operations. We have seen a decline in revenue in the Contract Manufacturing business. In the post pandemic period, the Company is taking steps to streamline operations and increase efficiency in the European business by merging the entities. As a result of this merger and consolidation of resources, our organization structure will get simplified to rationalize cost paving the way for future growth without requirement of additional capex.

Coming to our Core Fragrance division, it has reported stable performance despite the ongoing challenges. Our Flavour domestic business continues to grow strongly with double digit growth in both organic and inorganic space. However, the consolidation of distributors in the Middle East resulted in one time destocking of inventory impacting sales worth Rs.12 Crore in our Flavour exports. Despite the sluggish environment in the international markets the sales in January have been restored.

Coming to the update on the request for proposal from leading global FMCG. I am pleased to inform all of you that we have already submitted proposals for a range of brands in different categories with total value of more than Rs.100 Crore. These submissions demonstrate our ability to offer world class products and services. In the coming months, we are scheduled to submit additional proposals worth more than Rs.300 Crore. Although the process of securing the order has taken longer than anticipated, we are optimistic about the potential for long term growth from this account. We understand from the client that this process project involves long lead times of six to nine months before consumer tests are finalized and commercial orders begin.

In conclusion, I want to state that we will focus on the actions needed to be taken in this challenging environment. Now I ask the moderator to open the forum for any questions or actions and suggestions that you may have.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Bharat Gupta from Fair Value Capital. Please go ahead.

Bharat Gupta: Good afternoon. So, while I was reading your presentation a couple of things from my side so first like on the remarks on the global supply side issues so how well are we protected with respect to the procurement of raw materials whether it is for S H Kelkar alone or it includes Global Ingredients supply as well and what is our exposure towards China as on date?

Kedar Vaze: So, we are fairly well protected from the global supply chain given that we are holding good levels of inventory and we continue to do high levels of inventory than normal for protecting against quick supply chain disruptions. As regards to the disruption or supply chain issues with Global Ingredients, this is specific ingredient raw material which is used as an intermediate also in Agro and Pharma industries and this has seen globally consolidation into one or two suppliers in China. As a result, the prices and the availability have been tight. As I mentioned already, we have developed the process. We are in finalization stages with some partners in collaboration with agrochemical or specialty chemical companies to makes this product for us in India.

Bharat Gupta: But currently how much are we importing from China?

Kedar Vaze: This particular product we are 100% dependent on China so we will now develop our own alternative source. In overall business about 20% of our procurement is coming from China.

Bharat Gupta: Right and also 20% of our procurement comes out from Europe as well, right?

Kedar Vaze: Yes.

Bharat Gupta: So, we were enhancing and focusing more on the backward integration capabilities. So still if you look at the gross margin requirement that remains below 40% odd level while earlier it used to trade about 40% to 43% level so what is our target in terms of improving on the gross margin trend going forward?

Kedar Vaze: So, I would focus your attention on the sequential quarter. We have seen improvement in gross margin on a sequential basis and we foresee further improvement on gross margin quarter-on-quarter going forward. Vis-à-vis last year we have seen quite a strong inflation in the second half of last year so the Q3 last year was on a pre inflation cost price base. This year it is on a full inflation in the RM situation, so it is a big dip. Last quarter was a lower dip. We went from 39.8 to 41.2 and we will see continuous improvement in the gross margin as we go forward.

Bharat Gupta: With regard to the RFP issue so in the last concall also you were highlighting the fact that several of the tender offers are due in the month of December like we were waiting for some of the tenders? Like while we have submitted the bids for the same but any plans of finalization like coming base within one month or with regard to revenue potential, could you please highlight that.

Kedar Vaze: The process will be six to nine months after we start to submit so we have started our submission cycles from January so over the next six months we will continue to make products and submit the products for testing and the first results are expected in six to nine months from there. The second half of this financial year, we will start to get the results.

Bharat Gupta: Is it with respect to a different one? Earlier we have a contract with a different FMCG player, right? Now for the submission of the bids which we are doing that is for a different FMCG player or it is with respect to the same FMCG player?

Kedar Vaze: Let me just rephrase the question and what I understood. So, this is regarding the large global MNC where we are working. This is a multiyear project that will go on for three to four years. The first year of this project is now coming to a close and our submissions are getting finalized with their development team and the products are being sent for final evaluation to the consumers. This process has begun. Our submissions will go on over the next two quarters product by product and brand by brand in different geographies. While this testing, results are expected to start coming in six to nine months after three submissions. The first submissions have gone in January. We expect this calendar July and August onwards every month it is a cycle of submission and there will be some results coming out from what we have submitted. As I like to sort of mentioned in the opening remarks Rs.100 Crore worth of submissions have already been made and more than Rs.300 Crore worth of submissions are in the pipeline over the next two to three months so we expect that Rs.400 Crore to Rs.500 Crore worth of business proposals will be on the table which we will know the results only in the second half of this calendar onwards.

Bharat Gupta: Right after the Q2 of the financial year? Just on the margin as well on the RFP front, the margins are in line with the current business which we are in or it is on the lower side?

Kedar Vaze: So, the net margins are in line with our current business. The gross margins will be lower but the volumes will be higher so the operating costs will also be lower.

Bharat Gupta: Also, after getting out the RFP approval from the FMCG, is there any approach which is being shown by the other FMCG players also in regard to, you can say, outsourcing the product base to us?

Kedar Vaze: We are working with many FMCGs. There is no change in that. That continues as it has been our business from many decades. I did not quite understand.

Bharat Gupta: Is there any other interest which is being shown by different FMCG guys like in regard to outsourcing just like similar to what HUL did or the FMCG did from which we received the RFP approval so similarly in line with that are other players also approaching us?

Kedar Vaze: This is not outsourcing or contract manufacturing. This is basically that we are now partners for their product development, so it is not a contract manufacturing business.

Bharat Gupta: Right so my question was similar to what we have received now has there been any other interest or query we have received from others?

Kedar Vaze: We will discuss this is one to one subsequently because I am not able to clearly understand your question.

Rohit Saraogi: So, if your question is are we also working with other MNCs? So, the answer is yes but it is in a very preliminary stage as of now. We have started engaging with them and we are getting small briefs on which we are working.

Bharat Gupta: Also, can you highlight a bit on the domestic scenario like currently we have delivered I think around double digit but going forward, how the traction has been in the Fragrance and the Flavours space?

Kedar Vaze: I think the traction at the moment has been muted. It really depends on what the macro and how the inflation and growth pans out. We are closely observing. I do not want to put out prediction for six months down the line but if the growth resumes, we are tracking and we are doing growth plus in terms of our growth vis-à-vis the market growth.

Bharat Gupta: Also, when we are looking at our subsidiary in Europe so like with regard to CFF how much revenue contribution will be coming from Contract Manufacturing side and what is the update in terms of the headwinds which is there in the European market? Is it disrupting the demand to our product basket?

Kedar Vaze: No, it is not disrupting any demand from our product basket. The Contract Manufacturing is a separate business altogether and that has its own brand related challenges. It is largely in the European space, and I believe with the uncertainty around Europe, this business has declined versus last year. We are negotiating with the brands to restore the sort of the base around which the Contract Manufacturing costs can be redefined, so in terms of per kilo absorption we will need to renegotiate the prices which we are doing at the moment.

Bharat Gupta: Sir last question from my side. In order to understand the Company's growth prospects over the next three years, preliminary focusing on the next three years while the current headwinds are there but will be the key growth lever? Like I know RFP is there what do you think can be a turnaround point for our business?

Kedar Vaze: I think right now, like I mentioned in the opening remarks we are focusing on the actions that we can do. We have the product development teams ready. We have the product prototypes everything that we are geared and ready, the capacity is installed, product development teams as well as prototypes ready. We will grow once the general market outlook is not recessionary or depending too much on the effect of inflation. Once that eases out, I think the growth will restore and it will not be linear. It will start to grow faster than the overall GDP growth.

Bharat Gupta: The major direction of volumes may be coming in the RFPs alone, that is the core strategy which we are focusing on right?

Kedar Vaze: RFP is an incremental growth for us. Apart from that we have all the necessary tools and development and products ready for a normal business environment globally.

Moderator: Thank you. We have the next question from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia: Sir I just had one question. Regarding the Global Ingredient business before this whole impact of consolidation in China, what is the kind of margins the business used to do?

Kedar Vaze: So, we had about 40% gross margins on this business.

Viraj Kacharia: No, I meant at the operating level, so even if the EBIT level what we show in the presentation?

Kedar Vaze: So, it depends like any other specialty chemical, it depends on the volume utilization and plant loading. This quarter was a particularly very low from the point of view of the sales and the cost impact of raw material inflation, but typically if we did normal production, we have a 40% gross margin and it would flow down to Rs.2 Crore to Rs.3 Crore EBITDA.

Viraj Kacharia: So why I asked this is because even before this whole consolidation if I look at FY2022 numbers even on the scale of say Rs.80 Crore, this business was not profitable at the operating level. So just trying to understand in a normalized environment post the initiatives we are taking what is the kind of base profit or margin this business will do for us?

Kedar Vaze: So FY2022 you have put it correctly. I think the raw material prices have increased in the pandemic and consolidation in China. So, FY2021-FY2022 already the effect of that raw material mismatch between our supply contracts and our purchase contracts has started to kick in. But this is the result of sort of the historical stock and force majeure pricing. If we look at cost of raw materials in terms of our backward integrated or if you go in the history in 2018-2019 kind of 2021-2022 is actually where this whole raw material situation has panned out and then we moved and we have readied ourselves for a full backward integration. So, these are not the right comparisons. As a business, it is a bulk chemical specialty and it has more than 30% gross margin at the production level. It is combination of the plant loading where the margins will flow into the bottom line.

Viraj Kacharia: Okay and the second question is on the global RFQ which we have submitted on the bid for in the part one. So, as you said there are four different phases, can you just give some color in terms of what is the kind of addressable or the opportunity size in each of these phases and any indication of how is that structured and for say phase one has been as per our expectation? Would we have to do any capex to meet that requirement?

Kedar Vaze: Let me phrase this with a caveat that it is the first time we are participating in a global RFP of this nature. So, we are also learning as things unfold. It is typically in three phases. One is the selection of the partners which was done last year. Subsequently they have opened various parts of their different categories and different brands which we will engage with them. So, they have done that exercise in last year and I think between June and August in that they have started to award us various categories where we need to work, and the submission phase has started in January. So we have in total out of their billion dollar or so global business we are shortlisted for between $300 to $350 million globally and we are now participating on the active briefs of roughly 100 submitted and 300 plus few more which are getting actioned at the moment so somewhere around Rs.500 Crore worth of projects which we are in active submission phase. Over the next one year we expect that more projects will come and so the overall pipeline of projects we would guestimate which at this point about 100 million of projects so Rs.300 Crore to Rs.400 Crore in the immediate future and then another Rs.300 Crore to Rs.400 Crore thereafter will be project pipeline, with a lag of six to nine months we will know the results.

Viraj Kacharia: Okay and in terms of the investment or the capex?

Kedar Vaze: There is no real capex. There will be obviously the cost of development. There are some additional fees and specific consumer test costs, etc., which we will incur for the product development. There is also cost linked to participate in the basis so all of these are the costs. As far as the cost of manufacturing within India and Europe we do not have any additional capex required. Part of our longer-term production expansion we have already initiated manufacturing capacity in Indonesia for supporting our business. That same capacity will also be useful for any additional volumes in Southeast Asia for the RFQ business.

Viraj Kacharia: Okay and just one more question on this so as you said that the gross margin for the bid in the RFQ will be low, but the operating level or the net level it will have a similar margin of what we are earning in existing business. So, this is after including all the costs as in terms of the servicing or bidding for the contract right?

Kedar Vaze: So typically, we would amortize our investment in developing and bidding in a three-year volume. So yes, it will be almost the same after including all the costs.

Viraj Kacharia: I had just one more question on the overall net working capital, so I think two to three years back we started having a more higher inventory than the normal levels we used to have considering the kind of volatility and the inflation environment we were in.

Now as you also talked about in the earlier remark that we are seeing easing in the raw material and improvement in gross margins. So, in terms of the inventory holding period, how should one understand if you try to think that it will kind of keep moderating in coming quarters?

Kedar Vaze: Yes, I think we are waiting for the China reopening in the coming week after which we will know a very clear picture on terms of supply chain from China coming and joining back into the global supply chain. My best guess is that the inflation is easing. There may be some softening of prices and we will then look at reduction of our inventory if there is no pressure on price increases further.

Viraj Kacharia: Okay so in that sense the debt which we have which is around Rs.550 Crore, will the large part of the cash release are we looking to kind of use?

Kedar Vaze: On the debt Rohit you can give the numbers.

Rohit Saraogi: So, the debt is Rs.522 Crore which is with translation impact of currency and our endeavour is to reduce debt month-on-month, however, we are also cognizant about the investments on the projects we are working on. Therefore, we are looking at a level of Rs. 450 crore in the next six months.

Viraj Kacharia: So, on the CFF if you look at the growth and the scale up in that particular business for the last few years. Most of the clients are regional and there are a lot of new age brands also which we have kind of partnered with them and we have seen a good healthy growth so the performance there for that particular business has been better than the local market growth there. So in the kind of environment we are right now and how are you seeing what kind of communication you are hearing from those brands customers and how should one understand the growth in that particular business going forward?

Kedar Vaze: So, you made a very valid point. We have done more than 12% to 13% CAGR growth in the acquisition in Europe in the last three to four years. At this juncture, we are looking at the Holland Aromatic acquisition which has also been growing in the last two years with a very strong double digit plus. So, we are looking at consolidating these two into one European business. That will free up capacity for future growth.

So, today we are at a situation where we are approaching 85% to 90% of capacity utilization and to further grow aggressively, we first need to rationalize our capacities and free up using the synergies between the two plants.

Moderator: Thank you. We have the next question from the line of Amit Kumar from Determined Investments. Please go ahead.

Amit Kumar: Sir one question on this raw material transition from China to India, how much time do you anticipate this is going to take. And, in the absence of supply of these raw materials what is going to happen to the business in the interim?

Kedar Vaze: So, we have supply from China and we continue to hold stock of the inventory. So, we do not see any disturbance in the business. In terms of timelines, I think we are exploring sort of existing specialty chemical or agrochemical companies with capacity will be able to make our backward integration.

Amit Kumar: So how much time do you anticipate any that sort of tie up and the supply shift from China to India will take?

Kedar Vaze: I think in around six months we should have an alternative supplier within India.

Amit Kumar: I am really, really sorry. The Global Ingredient revenue has fallen quite dramatically? If you have inventory of raw material then what was really the issue in terms of the business line, I am not sort of clear on that?

Kedar Vaze: If you look at this business there is stock with the distributors, so it is not that the business has stopped from the consumption point of view. Prices for the fresh sales are sort of going up. We have January to December pricing so we have a better realization from January, so we are not pushing given the raw material situation. And we have a situation where there are low sales in this quarter, and we anticipate that once we have full backward integration plans in play, we can be more aggressive to regain our market share and grow this business.

Amit Kumar: Understood. Just one final question of mine. You sort of mentioned that we lost some business in the Middle East in this quarter as well? I just wanted to get a sense. Not as far as this particular quarter is concerned but on a full year basis generally what is the share of sales that the Middle East exports contributes overall?

Kedar Vaze: So, about 90% of our export business is in the Middle East. This sort of distribution creates gap between consumption and the stock, considering in the increasing price trend, I think even the distributors had higher stock levels. They bought and they kept in the stock. As the prices are softening, they are combing their stocks and reducing the buying. Our understanding from the distributors is that the actual consumption at the consumer or FMCG side has not declined. It is stable. However, this Rs.10 Crore to Rs.12 Crore of purchasing is a consolidation in their stocks and reduction of their sort of distributor stock in this quarter.

Amit Kumar: Sir I understand the difference between the primary and secondary sales, my simple point was in a normal sort of quarter or during the course of the year how much would be the export number, if you could sort of share the export number in this particular quarter I can sort of back calculate?

Kedar Vaze: So, the export number basically for the nine months was Rs.65 Crore. Last year it was Rs.75 Crore in the same period.

Amit Kumar: The difference is that sales part understood. Thank you so much. That is it from my side.

Moderator: Thank you. We have the next question from the line of Manoj Bagadia from Equicorp. Please go ahead.

Manoj Bagadia: The first thing about the Global Ingredients, can you throw some light on what is the capital employed for this business?

Kedar Vaze: It is about Rs.160 Crore.

Manoj Bagadia: Okay and what has been the capacity utilization in the Q3 for this business?

Kedar Vaze: The Q3 while we had low sales on this Global Ingredient we utilized the product capacity for some other smaller local ingredient manufacture, but the capacity utilization was less than 50% in this quarter.

Manoj Bagadia: Okay Sir versus what would have been the normal capacity utilization here?

Kedar Vaze: When the Global Ingredient normal course is running the plant is largely 70% to 80% producing one product.

Manoj Bagadia: If you reach 70% to 80% capacity utilization then you would have a positive EBITDA in this business?

Kedar Vaze: That is right.

Manoj Bagadia: Is there any long-term strategic thinking about this business because the good capacity utilization you will generate Rs.2 Crore to Rs.3 Crore of EBITDA right on Rs.160 Crore capital employed?

Kedar Vaze: Rs.2 Crore to Rs.3 Crore EBITDA on a quarter. If we have a 70% utilization then we have a very good business. The main thing is that the raw material has gone up by almost 25% and the selling price has only moved up by 5% to 6%. This is on account of the China Government and supplier policy, so they have lower cost of sales of raw material within China and when they export, they have higher cost of raw material. They have a subsidy towards the finished product being sold in the global market. The differential is largely sort of taxation and opportunistic scenario within China and soon when we have an alternative non-China supplier and given the supply situation we are in, I believe globally this product would be a competitive product or would be at lowest cost. .

Manoj Bagadia: So, once we have a domestic supply in six months then you are secured about the supply right or does it give some cost advantage?

Kedar Vaze: We are secured because it is our process. We will make a tie up with the local agrochemical company and with that security of supply and cost and we will be able to regain our market share quite easily.

Manoj Bagadia: So, this business eventually in a couple of years would generate what kind of return on capital employed? Will it be like 15% to 18% kind of a thing?

Kedar Vaze: I will get back to you exactly with the numbers but effectively it will have a swing of -10 EBITDA to a +10 EBITDA in this product.

Manoj Bagadia: So, this you are talking about on an annual basis?

Kedar Vaze: On an annual basis.

Manoj Bagadia: Still, it will not be very attractive or lucrative in terms of the return on capital employed?

Kedar Vaze: Yes, that is just one product. The capacity of the plant we have for smaller products and also there is additional capacity, so this is just the bulk product which makes the plant.

Manoj Bagadia: Is this strategic for us for the longer term, this business or you might want to hive it off probably into separate subsidiary and do something around that?

Kedar Vaze: We have separated it out as a segment. We are open to joint venture, strategic partnerships, anything that may come up on this side of the business because this one product, particularly is now multiple or couple of large producers in China as well. We do not see it being in unique position like we had in the past. It is very much integral part of our business. We would like to keep it, but I believe that once we have the domestic raw material sourcing then our position will be very strong.

Manoj Bagadia: So effectively we should be very okay next year onwards on this business?

Kedar Vaze: Yes.

Manoj Bagadia: Can you throw some light on the debt repayment or road map for the next two to three years? Six months we are talking about Rs.450 Crore? Then how do you see it over the next 18 months from there?

Kedar Vaze: I think our target is to have between Rs.10 Crore and Rs.12 Crore of free cash flow per month. This is ongoing even in this quarter, which is I would say has not been a great quarter. We have done above Rs.30 Crore of operating cash flow. If you kind of look at the net debt while it has gone up, it is largely the conversion of Euro to Rupees that the net debt has gone. We have been able to reduce it by Rs.15 Crore for like for like basis and we will continue to do that at a faster rate and bring down the debt to less than Rs.400 Crore to Rs.300 Crore in 18 months period.

Manoj Bagadia: Considering the uncertainties what we are saying it would be prudent to reduce the debt kind of business and I hope there are no plans to acquire further?

Kedar Vaze: There is no plans at the moment.

Manoj Bagadia: At least for a couple of years we will not see any acquisition?

Kedar Vaze: When you probe me one more time, I think I will answer. It is not 100% no. Things change. I hope that the environment is much better. We have a few good strong quarters in business. The RFP business starts flowing in things will look differently so I do not want to talk about two years down the line but till we have debt well below Rs.400 Crore and so on and so forth we will not look at any additional outlays.

Manoj Bagadia: That is good to hear that significant focus on the cash flows in the next six to 12 months or may be even longer time. About the European operation when you combine these two apart from getting some additional capacity, is there any cost synergy?

Kedar Vaze: Yes there will be cost synergies on raw material buying. A number of Management roles which are duplicated will get reduced. So, there will be cost synergies, but largely the capacity freeing up it is very good because the two companies independently would need to invest in capacity but joined together they can have a bigger capacity because of the synergy.

Manoj Bagadia: Any thoughts on the next year organic growth outlook as of now considering the uncertainty what we are seeing?

Kedar Vaze: I think again in the opening remarks I concluded where our actions that we need to take we will focus on them. We are ready from plant capacity and product development work that is happening at our end. The actual growth numbers that translates is I think largely dependent on the macro as much as what we can control. I do not want to judge a number on a global basis what the growth rates look like but

I would only say that the growth rate of the company will be more than the GDP growth of the different economies where we are operating.

Manoj Bagadia: So earlier what we used to plan 12% to 15% at least growth we are not sure as of now because how things are going to pan out?

Kedar Vaze: Basically same 12%, we have everything that is required for 12%. If the demand environment does not give us opportunity it looks very difficult.

Moderator: Thank you. We have the question from the line of Rakesh Choudhari from Keynote Capitals Limited. Please go ahead.

Rakesh Choudhari: Good afternoon Kedar. In your open remarks you spoke about some initiatives relating to farmer development with related party, which is the promoter owned group entity called Keva Aromatics I believe if you can throw some light on what exactly this activity is? Whether it had already commenced and to what extent already begun and how is it likely to shape up going further?

Kedar Vaze: So, I eluded that in my opening remarks, Keva Aromatics is a Promoter company where we are basically collecting from hundreds of farmers small quantities 5kg, 10kg, and this kind of. It is a collection center where we collect aromatic essential oils particularly Geranium which is a substitute to China, and this is combined and transferred to the SH Kelkar with a 2% mark up. This is basically an activity where we collect and we have quality control and large compliance requirements which are all managed in this company and then it is one bulk lot which is then approved by the parent company and shipped to the parent company. At arms length agreement with the 2% mark up in the collection and the sales.

Rakesh Choudhari: What kind of size of business are you doing through this company?

Kedar Vaze: So, we have done about Rs.30 odd Crore this year. I expect around Rs.40 Crore for the full year and the Geranium oil we have ballpark Rs.15 Crore to Rs.17 Crore of our own consumption. We expect this Rs.15 Crore to Rs.17 Crore to Rs.20 Crore being year-on-year activity. The first year there is a higher quantity because the quantity has come in, we are taking it. We will have some stock but after that on a regular basis it will be around Rs.20 Crore to Rs.25 Crore annual basis.

Rakesh Choudhari: So, you believe that this will help mitigate your procurement pains to some extent and that is the reason for this relationship?

Kedar Vaze: So, this, the Aromatics company has been set up for developing agricultural practices for the products that we need. It is a sort of a backward integration venture. Apart from the Chinese Geranium there is a product like Vetiver oil which is coming from Haiti and that has very uncertain supply due geopolitical as well as climactic and earthquake situation so these kind of products where globally the supply chain for our industry is affected, we are cultivating in India and building our own strong supply chain.

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

Dilip Sahu: This is regarding RFP what I heard you saying is we got selected for a set of category of products that will have an opportunity of $350 million. Would you have an idea how many competitors would be there in this $350 million category that we got selected?

Kedar Vaze: So, to the best of my knowledge the entire billion dollar plus has been allocated with six or seven suppliers globally.

Dilip Sahu: So, we can assume three to four at least are the people competing for $350 million that would be a fair guess?

Kedar Vaze: Yes.

Dilip Sahu: The second question is you said you have submitted an expression of interest or whatever for Rs.100 Crore and Rs.300 Crore to Rs.400 Crore is in the works and over a period of time this will keep on repeating may be Rs.1,500 Crore for submissions in a year or so. So, when you say Rs.100 Crore what is the cycle you are referring to? Are you referring to the whole four years in the contract Rs.100 Crore or how is it going to be?

Kedar Vaze: Annual potential Rs.100 Crore.

Dilip Sahu: So what you submitted in January if it starts getting may be operational in September to December?

Kedar Vaze: We have submitted three projects total into Rs.100 Crore and one of them is Rs.25 Crore annual potential. Then if we win Rs.25 Crore we will be continuously supplying this Rs.25 Crore potential for a minimum of three years.

Dilip Sahu: This is Rs.25 Crore into three and since there is a similar kind of potential…

Kedar Vaze: Total business is three times the value which I have given so Rs.100 Crore which we have bid for Rs.300 Crore over three years. Rs.400 Crore will be Rs.1,200 Crore over three years. This is all the potential.

Dilip Sahu: Sure and talking to the customers what do you think when will this whole requirement of $350 million will get exhausted. Will it take one or two calendar years for this whole $350 million to be addressed to?

Kedar Vaze: I think it will take about 12 months more, so in this calendar the submission phases should be over and then we will know by next calendar or starting from the second half of this calendar the results will start coming in. So, it is a ballpark one year submission phase and six months delay we will start to see the results phase.

Dilip Sahu: Sure so just trying to understand a bit more you have expensed out I think some Rs.4 Crore to Rs.4.5 Crore which is the RFP, procurement cost of the RFP what are the other costs required for just fulfilling the proposals? Do you need any R&D cost or any other cost for say running those $350 million in the next 12 months?

Kedar Vaze: Yes, so we typically have a large team of R&D people working on these projects. So, yes there is a ballpark Rs.12 Crore to Rs.15 Crore cost of running the projects in a year plus there will be related consumer tests, some marketing studies and so on and so forth.

Dilip Sahu: Once you get the request then no more preproduction cost required? You can just start up with nothing else, it is very normal live production, right?

Kedar Vaze: Yes. There is no cost for scaling up to manufacture and we already have the capacity and the know how to scale up the products.

Moderator: Thank you. We have the next question from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia: Yes, I just had one question. Regarding the Contract Manufacturing business in Europe. If you can just give some color in terms of how long the contract is for and given that we are now kind of trying to merge both Holland Aromatics and CFF to kind of free up the capacity, is this the avenue where we can kind of reduce this exposure and focus more on scaling up even the capacity for the Fine Fragrance and other business?

Kedar Vaze: The capacity is different from Fine Fragrance capacity so it is a different plan and yes we can utilize it for expansion in our core business.

Viraj Kacharia: Okay and this contract agreement is for how many years?

Kedar Vaze: So, it is typically three years with an annual sort of a renegotiation or annual reset. They are ongoing contracts, so every year there will be a discussion.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference back over to the management for closing comments. Over to you gentleman.

Kedar Vaze: Thank you. I hope we have been able to answer your questions. Should you need any further clarifications or would like to know 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: Thank you very much Sir. Ladies and gentlemen, on behalf of S H Kelkar and Company Limited, that concludes this conference. Thank you for joining with us. You may now disconnect your lines.

-End-