



February 14, 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 : 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 24 Earnings conference call for investors and analysts organized by the Company on Thursday, February 08, 2024 at 02:00 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
Company Secretary & Compliance Officer

Encl: As above



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S H Kelkar and Company Limited
Q3 & 9M FY24 Earnings Conference Call
February 08, 2024

Moderator: Ladies and gentlemen, good day, and welcome to the S H Kelkar & Company Limited Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal the operator by pressing star and then zero on your touch-tone 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, Dorwin. Good afternoon, everyone, and thank you for joining us on S H Kelkar & Company Limited's Q3 & 9M 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 brief opening remarks from the management, following which we will open the forum for an interactive Q&A session. Before we begin, I'd like to point out that certain statements made in today's call could be forward-looking in nature, and a disclaimer to 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 afternoon, everyone, and thank you for joining us on this earnings call today. I hope you have gone through our results documents, which were uploaded to the exchanges earlier.

You can see we have delivered a healthy year-on-year and quarter-on-quarter revenue growth this quarter, maintaining the momentum we started in the first half of the year. Our performance was driven by increased contributions from new accounts, a revival of demand from midsized and smaller accounts, especially new e-commerce and start-up companies, and enhanced performance in the rest of the world markets.

While the base in the corresponding quarter last year was low, our results do stand out given the overall softness in the FMCG industry. Furthermore, our core Europe segment has reported all around positive results with healthy revenue growth and strong gross and EBITDA margins. We have also sustained our margin performance during the quarter, assisted by various initiatives, and remain on track to report over 16% EBITDA margins for the full year.

Regarding segmental performance, within our core Fragrance vertical, along with the strengthening of our position in the well-established Indian market, we have also achieved growth in various new export markets. The team is actively implementing a strategy to better penetrate existing and new markets, particularly focusing on Southeast Asia, Africa, the United States and other markets. We are confident that this performance is sustainable going forward. Our Flavours segment also delivered an encouraging performance during the quarter.

Moving to a key business development. We are extremely pleased to announce that after over 2 years of dedicated effort by our R&D, perfumers, marketing, and other teams, we have secured multiple order wins from a global MNC player. F&F industry is well known for its high entry barriers, particularly in establishing new accounts. This success is a testament to our team's perseverance and innovation capabilities and marks a significant breakthrough in penetrating the tightly held global accounts. Although the business contribution from the initial orders is modest, we are fully committed to strengthening this partnership further. We consider this as

the beginning of the relationship, which we aim to develop into a long-term partnership with substantial growth potential over the next 3 to 5 years.

In conclusion, our transformative turnaround initiatives over the past 12-15 months have laid the foundation for our performance this year. A recent success is the MNC order highlights our proven R&D capabilities and our ability to meet global standards of the F&F industry. Furthermore, our preparedness in terms of capacity ensures that we can scale up operations efficiently to meet the increasing demand and capitalize on any such business opportunities.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Bharat Gupta from Fair Value Capital. Please go ahead.

Bharat Gupta: Congratulations for a good set of results. My first question pertains to the volume growth. Like can you quantify what would have been the volume growth across our regions, across both the segments particularly Flavours and Fragrance during the quarter?

Kedar Vaze: The price growth in this quarter was quite small, probably very low 1% or 2%. So, most of the growth is in volume terms.

Bharat Gupta: And that is across both the segments?

Kedar Vaze: That is across the segments.

Bharat Gupta: Secondly, coming on the RFQ bid. So, we have received the order from MNC, and I think we were expecting a run rate of Rs. 100 crore per annum for 3 years. So, does the order win match the kind of a run rate we were expecting?

Kedar Vaze: I think the expected quantum is still there. The ramp-up, which we were expecting in 3 years is probably going to take longer with some program delays on changeover and so on and so forth from the client side. So, the program will be longer term, but the quantum is still the same.

Bharat Gupta: The quantum of Rs. 300-odd crore cumulative, that will remain the same, but the timeline has extended, correct?

Kedar Vaze: Initially, I think the ramp-up of the business is kind of delayed by 12 to 14 months, so that is kind of the delay in the program itself. But beyond that, all the other parameters remain the same.

Bharat Gupta: Right. And when we are expecting the orders to get translated into the revenue side?

Kedar Vaze: So, we have received the first orders for new projects, and these will ramp up over the next 1 year to various geographies and kind of different brands. So, our first order serve for a couple of wins have started, not significant in terms of revenue at the moment. But we expect by second half next year, the full rollout of these products will happen in the market.

Bharat Gupta: Sure. On the expansion side, so we are doing some sort of capex in the Indonesian region. So, is it primarily directed towards the RFQ or it is just we are exploring the Indonesian market?

Kedar Vaze: We have been in the Indonesia and Southeast Asia market for many years. We have built a sizable business in the market, a little over USD10 million. And with the Indonesia investment, we will establish our own manufacturing facility for Fragrances in Indonesia, near Jakarta. I am pleased to announce that the facility is almost ready, and we will be commissioning the facility in this quarter.

Bharat Gupta: Sir, if I look at the order wins, which we have been awarded by the MNC, sir, do you believe that the trend for going localization across, so that has been the key trend which the industry itself is witnessing. And if yes, so are we participating in any tenders being quoted by any other MNCs in India or in the overseas market?

Kedar Vaze: I think we are not actively participating with any other tender. We have more than enough opportunity for growth and projects on our development team. So, we're not actively chasing other MNCs at this point. Once we have this project running for 2-3 years, we will build the capability, we will take it to other clients as the strategy may be.

Bharat Gupta: Right. And the order wins currently corresponds to the deliverables out there in the domestic market and the Indonesian market?

Kedar Vaze: No. These are global wins. They will start in different regions.

Bharat Gupta: Okay. Sir, secondly, if I am allowed, so I have a question with respect to the Italian arm – CFF. So, I think it's been running at optimum utilization levels, and we are not exploring any opportunity for doing capex. So, do not you expect the volumes to remain stagnant if we operate at the current levels? And the margin improvement which we have seen across the European business, so is it currently driven by the operating leverage? Or there is some colour with respect to the change in the product mix as well?

Kedar Vaze: So, a bit of product mix as well as operational efficiency, we have been able to streamline the operations to pull out more production volume from the same facility. Various steps have been taken to optimize the production between the 2 facilities in Netherlands and Italy. So, this has helped us to increase the volume of production without any significant capex. We expect that there may be European-wide capex in development and manufacturing sometime 18 months from now.

Bharat Gupta: So, we will be exploring the capex after 18-odd months. Currently, can we grow in double digits in the European market?

Kedar Vaze: Yes. We have been able to make efficiency gains in our production to allow us to grow. And if we look at a 10% to 12% CAGR growth, it will push our capability to allow us to service the client and the current customer base into 2025 to '26, somewhere between in those years.

Bharat Gupta: And the margins which we have maintained, so are they sustainable?

Kedar Vaze: Yes, these are the historical margins. We had actually lost some of the margin a couple of years ago and we are now back to the historical levels.

Bharat Gupta: So consol, say, 16% is what you can guide for the years to come? Probably for FY '25 and FY '26, these are the kind of margins we can build in the projections?

Kedar Vaze: I think they're quite reasonable number, 16% EBITDA level on sales is a good trend line. We are looking to expand that and do better than 16%, but I think 16% is where we are at the moment.

Bharat Gupta: And sir, last question, if I am allowed. It pertains to the US subsidiary. So, what is the thought process of forming out the subsidiary? And are we looking out for any inorganic opportunity as well? Or it's primarily directed towards exploring further opportunities for the RFQ side from the existing or newer client base?

Kedar Vaze: So, both the subsidiaries are targeted towards organic growth. We will put in people and development and marketing resources to tap into new markets and/or support our current business depending on the requirement. So, the subsidiaries, I mean, the United States subsidiary is where we expect to grow that market is a new market area for us. And then within Europe, we will strengthen our development resources and production footprint to allow us to cover more markets within Europe.

Bharat Gupta: Can you tell us about the market overall with respect to USA? How big is the market and what kind of opportunity size it presents for us?

Kedar Vaze: We are just starting. We are basically starting from zero in the Fragrance and Flavours side of the business. The US market is one of the largest single markets in the world, and it is almost 35% to 36% of the global Fragrance and Flavours market, which translates to between \$7 billion and \$8 billion of fragrance and flavour opportunity in the market. Having said that, we are just starting. So, we are very modest.

We will look at working with the small and regional clients to build a small base and keep further developing the market. In every market, new entrants normally will start with the regional and small players, and then it takes many years before proper established facilities and reputation to penetrate the larger clients.

Moderator: The next question is from the line of Jainam Ghelani from Svan Investments. Please go ahead.

Jainam Ghelani: Congratulations for a great set of numbers. Sir, I wanted to know what was the contribution from new products in this quarter?

Kedar Vaze: So, our sales mix in this quarter, roughly 2% to 3% has been from new products.

Jainam Ghelani: Okay. And so, what are the steps that we have taken to improve our efficiency?

Kedar Vaze: So, we have various steps, but the main kind of significant steps are in the European operations. We have combined programs between Holland Aromatics and CFF, so Italy and Netherlands. So, they work as one combined operation. That helps us with the raw material efficiency and also the production planning efficiency. So, we're able to get more production between the 2 facilities combined than each of the facilities as a stand-alone facility.

Jainam Ghelani: Okay. And sir, what is the capex plan for this year and the next year?

Kedar Vaze: So, I think this year, we have undertaken the large capex on the Indonesia factory, which should be ready by next financial year, full year. We do not expect any large capex on production side in the coming year. We will continue to invest in kind of incremental capex and capex on the product development teams and infrastructure for product development, which will be continuous ramping up. As we work with more and more larger and more number of diverse projects, we will need to put the infrastructure and people of diverse backgrounds in kind of different geographical locations.

So, we will continue to grow the footprint as far as the product development teams are concerned. This is expected to maybe even double or triple in the next 3 to 4 years. For the production facilities, we have enough capacity for Asia. Europe, as I mentioned, somewhere in 2025 and '26, we will need to reinvest or add additional manufacturing capacity.

Jainam Ghelani: Sir, would you be able to quantify this please?

Kedar Vaze: I do not have exact numbers for the same with me. But in terms of our normal Rs. 20 crore our maintenance capex, probably add another Rs. 20 crore in terms of the capex on new facilities or different locations.

- Jainam Ghelani:** Okay. Sir, what are our plans for debt reduction in FY '25 and '26?
- Kedar Vaze:** So, we are committed to operations efficiently. I think at this point, the cash flow generated has been largely going back into capex and inventory. And the inventory we talked about, we expanded our inventory base, given the available raw material situation, and we will start to reduce that as we go through the year. Starting this quarter, we are already on an inventory reduction plan.
- Jainam Ghelani:** Sir, just one last question from my side. So, is it safe to assume that our base business will grow by 10% to 12% and the new orders will contribute meaningfully from H2 FY '25?
- Kedar Vaze:** Yes.
- Moderator:** The next question is from the line of Zakinasser, an Individual Investor. Please go ahead.
- Zakinasser:** Mr. Kedar, I think, first of all, congratulations to you and your team for a wonderful set of numbers and getting S H Kelkar to a position to where it should have been. Sir, one very interesting point you made was the demand from e-commerce and start-up companies. Could you just elaborate on this point?
- Would you think that the push at least in India markets will come from these segments, sir? And of course, the other point of growth and EBITDA margins has been answered. You said that you would be maintaining that 10% to 12% and the current EBITDA margins.
- Kedar Vaze:** No, I think the e-commerce and small size of the business has been growing faster than in the previous years. We have witnessed a couple of couple of market disturbances through the pandemic and the earlier GST, demonetization, which has adversely affected the momentum in the new brands and smaller accounts, leading to almost 2% to 3% of market share decline in the past.
- On the last year base, we have now finally consolidated and the business across all the categories is growing. We are doing market plus growth in all sectors of the business in Fragrance and Flavours. The important thing is that the market dynamics. The larger FMCG players are growing smaller volume growth in this

quarter. I think this is the current trend, but I think on a longer term, the growth will be across the board.

Zakinasser: And if may ask what about the major players? I mean, how would you foresee the competition from them? And are they becoming more active in India?

Kedar Vaze: The major players have set up their own subsidiaries in 1990s and they are all very active and they're well over 60% of the market share, all of them combined. So, they're very much here. They're all active for decades now, and it is part of the competitive landscape.

Moderator: The next question is from the line of Nihar Shah from Crown Capital. Please go ahead.

Nihar Shah: I joined in the call late, but I heard...

Moderator: Sir, sorry to interrupt. The line for you is not very clear. I request you to please move to an area with better network.

Nihar Shah: Is it better?

Moderator: No, sir, it's not clear at the moment. Nihar, may we request you to please rejoin the queue after you establish a better connection. We will move to the next question, which will be from the line of Amarnath Bhakat from Ministry of Finance of Oman. Please go ahead.

Amarnath Bhakat: Just two, three clarities. Just now you said that the major markets share is with multinational players who have already established offices in India. Could you please help us what would be approximately your market share at least in the Indian side?

Kedar Vaze: Our market share in the Indian Fragrance business is roughly around 20%.

Amarnath Bhakat: So, all the MNCs put together, they have a market share of 60% and your alone market share in India is around 20%?

Kedar Vaze: That's correct.

Amarnath Bhakat: These 4 or 5 MNCs who already established their presence in India since last 10-15 years, so they all put together have 60%. And you alone are having 20% in Indian market. Is it right?

Kedar Vaze: That's correct, on the Fragrance side.

Amarnath Bhakat: Okay. So, if I ask you then, what is your exactly competitive advantage compared to those global MNC players who are there in India? What is exactly coming to your advantage to get that 20% market share, especially when the market is crowded by the global MNCs?

Kedar Vaze: I think there are a lot of facets to this question. We have different projects, different strengths and weaknesses like every other Fragrance and Flavour company. So, we operate on our strengths, understanding of the local conditions, local markets. We have well over 100 years of legacy on R&D and innovation. So, we have platforms of different product types which are successful in the market. So, every company develops products. It's kind of a continuous innovation industry. So, we need to continue to invest in innovation, continue to improve our product offering. So, to that extent, the market share is built over 10 years of continuous innovation and customer connect. And that's our USP, we continue to work on it and continue to bring new generation of products to the market.

Amarnath Bhakat: Okay. So, if I extend this discussion a little as well, so in the last few years, have you able to gain market share? And if yes, then how the trajectory looks like? I'm only talking about the Indian market.

Kedar Vaze: So I think, I would go a little bit further than 3 years, 5 years. We actually lost market share as a result of the demonetization and GST twin effects and pandemic. In these 3 sorts of events, the kind of smaller the businesses, the more difficulty they had at these times, and we shrunk our small business to the SMEs and smaller accounts in this period. I estimate roughly 1% or 2% market share loss to the larger global F&F companies. Since last year and this year, we have started to recover. We are growing faster than the general average industry. So, I would imagine, we are now picking up again some market share.

Amarnath Bhakat: And what would be your capital utilization, especially at the Indian plant at the moment?

Kedar Vaze: So, on the fragrance and flavour capacity, we have less than 50% capacity utilization. There is adequate capacity for next decade-plus.

Amarnath Bhakat: So, shall we assume, say, less than 50% means it's very low utilization level at the moment. So shall we assume that as, I can say, the low period of most of the FMCG company are saying that their volume growth was muted because the rural demand in India was not picked up. However, their projections in the future, including HUL, Dabur, Patanjali, all are saying that future volume growth is quite visible, at least in a higher single-digit growth they can achieve.

So, if we assume that they are growing at that speed, so your growth would be faster than that. And if your capacity utilization is less than 50% at the moment, then as you increase your capacity utilization, you will get a significant operating leverage benefit. Is this assumption right?

Kedar Vaze: Yes, the assumption is right. I just wanted to kind of highlight that the capacity utilization is going to be incremental additional 3%, 4% capacity gets utilized year-on-year. So, we do not see that the capacity utilization will be anywhere near full capacity anytime soon. So, there is definitely operating leverage, but unlike chemical industry where it's a single product, we have many numbers of products. So, it's an incremental process. It's not a sudden change.

Amarnath Bhakat: Then how would be your ROE and ROCE picture, sir? Because your presentation is not very clear on that? What is the ROE and ROCE at the present level?

Kedar Vaze: Rohit, you may want to answer the exact numbers?

Rohit Saraogi: The ROCE stand at 13% annualized and ROE is around 11%.

Amarnath Bhakat: So, what's the plan, sir, to improve because 13% to 11% is not that great because normally, the standard talked about 15%, 16% minimum ROE and ROCE, especially the kind of business you have and your improvement in the gross margin, capturing the market share, which we lost increasing the volume growth. So, when can we expect the improvement in this ROE and ROCE parameters?

Kedar Vaze: I think we will quickly see that coming in as the growth continues in the coming year. A major part of the kind of capital employed is with the inventory, and we have strategically done that in the last 18 months when the inflation and subsequent -- now the reduction in prices. So we are at a kind of a high inventory status at the moment, and we will pull out inventory from day sales of inventory as we go through the year.

Amarnath Bhakat: And sir, if I may ask. What is the target, sorry?

Kedar Vaze: Upwards of 20% of ROCE.

Amarnath Bhakat: And within what time, sir?

Kedar Vaze: I think if we pull out, if you kind of do a math of 12% growth and 7%, 8% decline in inventory, we will be there in 4 to 5 quarters.

Amarnath Bhakat: 4 to 5 quarters, we can reach from 12% of ROCE, which is currently, to 20% of ROCE?

Kedar Vaze: That's correct.

Amarnath Bhakat: That's a good improvement. Sir, if I may, last one question. Your cash conversion to your profitability is quite enriching and previously you have used all this internal cash and the debt for the future expansion either domestically or internationally. But as you just said few minutes back that you do not have any major future capex lined up. So how would your capital allocation policy would be?

Are you planning to use this incremental cash coming from the business to repay the debt first? Or it will be used for paying dividend? Or how would be your capital allocation policy going forward?

Kedar Vaze: We have capital allocation, or a profit distribution policy where we distribute between 30% and 40% of the cash profit or profit earned in the year. We have been consistently following that as a dividend and/or share buyback from time to time. As regards the cash flow that we will generate, I think our last large outlay has been done in the Indonesia project. Now we do not expect any inorganic growth.

And just to kind of give you colour of the debt and current debt, we are around Rs. 500 crore mark in terms of current debt. And we have spent something like

Rs. 450 crore of money to acquire 2 companies or 3 companies in the European continent. So, most of the debt that is on the balance sheet today is basically as a result of 100% acquisitions of two companies. We have now fully completed those acquisitions in the last 4 years, so there is no large outlay on the balance sheet for the company in terms of commitments made for any inorganic acquisition. We expect the cash flows to bring down the debt.

Amarnath Bhakat: These two companies which you acquired, sir, how they're performing now? Are they at par with your existing business?

Kedar Vaze: Yes, they're at par. They are actually better than the historical business in India, given that they're operating in Europe, which has kind of better margin environment than emerging markets.

Amarnath Bhakat: So, their ROCE is better than you at the moment?

Kedar Vaze: Yes. There is a different business model that is followed there, which is very much just-in-time inventory with 1 or 2 months of inventory and they follow a different business model. Within the group, because we have a high inventory model, we are also holding the inventory for the emergency for the rest of the group.

Moderator: The next question is from the line of Ashutosh from Mirabilis Investment Trust. Please go ahead.

Ashutosh: So, a couple of questions. First is on the cost side. Sequentially, we have seen a decent pickup in employee costs as well as other expenses. So, is there anything particular that you can highlight here?

And second one is on the global RFQ. So, our earlier assessment based on your calls was that the gross margin profile would be slightly lower than company average, while EBITDA will be similar. So, does that stand or has it seen some change? So, these are 2 questions.

Kedar Vaze: Yes. So, on the EBITDA question, it stands as it was earlier. You can quickly rephrase the first question.

Rohit Saraogi: Employee cost, so I will take that, Kedar. See, employee costs, there's an increase sequentially, which is primarily led by new hires which we have included in our team to enhance our capabilities and true up of the performance pay bonus, which is linked to our performance. And on the other overheads, there is an increase, which is in line with the sales. And if you look at the sales numbers, the percentage to sales are maintained.

Ashutosh: Okay. Second is on the global RFQ. So, the gross margin profile, our earlier assessment was that that will be lower than the company average, while EBITDA will be similar. So, with all the delays that we have seen, has there been some change in the supply arrangements or product profile that you're going to do? So does that assessment still stand or has that seen some change?

Kedar Vaze: No, that assessment still stands. There is no change in that.

Ashutosh: And lastly on the Global Ingredients part. So again, that has also seen some pickup with all the efforts that we have been doing. So, this quarter, we have done Rs. 11.5 crore of revenue. So where do you see the run rate going forward for the Global Ingredients business?

Kedar Vaze: We have alluded earlier that on the Global Ingredients side, we are looking at a full backward integration. Pleased to announce that our backward integration program has commenced actual full commercial production since December. We are already seeing the Global Ingredients sales and margins better than last year with our cost reduction program and efficiency on the product.

We will further see improvements in this based on our backward integration, further reduction of input cost. And so, I think the Global Ingredients, which has been sort of in negative territory last year, we look at making it a positive EBITDA contributor in the quarters to come.

Moderator: The next question is from the line of Kunal Tokas from Fair Value Capital. Please go ahead.

Kunal Tokas: Most of my questions have been answered. I just had two left. You talked about your debt, but I think I missed it. What is the take on our books right now?

- Rohit Saraogi:** Rs. 526 crore.
- Kunal Tokas:** Rs. 526 crore, okay. And my second question was about the raw materials. We have seen improvement in gross margins and that has translated into EBITDA improvements as well. What has been the trend in raw materials? And is the Chinese dumping having a good effect on us and the industry? And also, have we passed on the correction in the raw material prices to the consumer?
- Kedar Vaze:** See, I think the raw material input cost has been on a downward decline in the last 6-odd months. We have seen that, and that has been a benefit for us. We have kind of continued to engage with our clients and discuss prices for a normal policy every 6 to 12 months. We are continuing to do that and whatever cost reductions or any pass-throughs we have been negotiating with the clients. So, there is no expectation of any sudden change in the outlook going forward.
- Moderator:** The next question is from the line of Rohan Advant from Prad Capital. Please go ahead.
- Rohan Advant:** So, my first question is on our margins in the Flavours segment. They are in single digits, and they used to be higher earlier. So, any road map for improvement in margins in the Flavours segment, sir? And what are the levers that are available?
- Kedar Vaze:** Flavours business also consists of different market segments. So, we will look at our strategy and focus on the profitable segments of the market as we go forward. I do not have any further colour on the strategy at this moment. And we will look at improving our margins and looking at the focus on the higher-margin business going forward.
- Rohan Advant:** Okay. But I mean, is there scope for meaningful margin expansion in the Flavours segment over the medium term?
- Kedar Vaze:** The Flavours segment has seen some margin expansion on the gross margin side. We have continued to expand our marketing and sales team to further enhance our growth. I think at this point, we will look at a longer-term line part, what is the businesses that we want to grow, which are the right kind of businesses to grow and align the Flavours strategy accordingly.

Rohan Advant: Got it. And sir, in the last call, you said that your revenue guidance is 10% to 12% for FY '25. Now with a strong quarter that we have had and the order wins, you think we can better that in FY '25?

Kedar Vaze: I think I still remain committed to the 12% CAGR growth year-on-year for mid-term 3 to 5 years. We have seen a big jump comparable with last year, which was a muted quarter, so we will see that big jump in this period. Next year, we will be having a good base, consistent base. So, we will look at delivering more than 12% CAGR year-on-year.

Rohan Advant: Got it. And sir, lastly, if I look at the last few years, seasonally, our March quarter is stronger than the December quarter. So, is there anything specific to the F&F business that it is so?

Kedar Vaze: Actually, what happens is there is a small part of the F&F business or a general kind of a consumption scenario, it's a bit of a seasonality. It's not specific to product. In food, the seasonality is much bigger. But we do see that the sort of festival demand, as we call, in the last quarter, the product is going in sales into the first or second quarter of the year, particularly in South India and middle parts of the country, this festival season start coming in as soon as the kind of rain period, so July, August.

So, there is an uptick of demand in the first quarter for the FMCG in a way. And we see that always the fourth quarter is stronger than the previous quarters, which is a normal trend. We cannot pinpoint a very specific reason, but it is a normal trend that the fourth quarter is better, and then first quarter slightly drops and second quarter onwards, it picks up again.

Rohan Advant: Got it. And this trend should play out this year also?

Kedar Vaze: I do not think there is any difference to this trend, it should play out. I just want to highlight that now almost more than 50% of our business is linked to the export business. There, the trend is slightly different. There, seasonality is slightly different. But in general, as of now, we still see the first quarter calendar, fourth quarter financial being the bigger of the quarters in the year.

Moderator: The next question is from the line of Bhavya Sonawala from Samaasa Capital. Please go ahead.

Bhavya Sonawala: Sir, just wanted to know if it's possible to give a breakup of how much business comes from probably small players, SMEs, MNCs and global players, if that's possible? And what was it probably 2, 3 years ago? And how has it changed over the years, if it's possible to break down?

Kedar Vaze: Yes. I think we have given that for the Fragrance business earlier as well. We had roughly 20% of SME business in the past, it had come down to almost 10% in the 5 years. Last year, it has stabilized. And this year, it will probably be 12% of our overall Fragrance business. The other categories remaining the same, by and large. The mid- and small have grown faster than the larger FMCG. And the global account, of course, is growing fast for us on a very small pace. But the other categories have grown.

So, if I take a combination of the global and large accounts and the mid- and small, the ratio remains the same, 45% with large, 30% with the mid, and 10% to 12% with the smaller companies. The remaining 10% is miscellaneous products to the industry to other players and export or ingredient business.

Moderator: The next question is from the line of Dilip Sahu, an Individual Investor. Please go ahead.

Dilip Sahu: I basically wanted to understand the manufacturing asset spread across. Now we have in Europe 2 facilities. In India, we have facilities. And now you are starting up in Indonesia. In China, too, we have understand that one manufacturing asset, which I guess, we have sold. So, what's the strategy of having smaller spread out manufacturing facilities? Is it driven by the customer product or is there any other reason, instead of having one singular consolidated manufacturing asset?

Kedar Vaze: So, the products that we make are normally in the market. They are tailored product customized to each market and they are best produced locally in the market and supplied locally for their lead time and efficient supply and customization of the product. Where we have the larger ingredient play, which is a

sort of a global specialty chemical business, we have the bigger plant in India which is servicing the global demand.

So, the tailoring is done in each market locally. The cloth is made central in our large manufacturing site in India. So, it's a bit of mix of the requirements of the industry. And this is true for all industry players, that the final formulation needs to be close to the market. The bulk ingredients are produced globally in the centralized economies of scale large plants.

Dilip Sahu: Sure. Just extending the question, we took around, say, 10-odd years and multiple acquisition in Europe to get a foothold in Europe and thankfully we're doing well. Does that same logic also apply to US? Do you have to have a design studio as well as manufacturing assets, just as you likely said, the demand of the market is to have localized manufacturing. So, is that going to be the same way in the US, too?

Kedar Vaze: To answer that question, answer is yes, we will need to put a design studio, manufacturing, all of the same steps that we took in Europe. Our approach to the US is more organic investment based. We are not looking at the moment for any inorganic acquisition. The US market is much more consolidated than the European market because you have basically one common market unlike Europe where the market is large, but each country and each region has its own language and own preferences. US has a very homogeneous market.

So, we believe that we can grow that market with our understanding of the market develop that, understanding and grow that market organically without needing to do any large inorganic acquisitions. In addition, we have patented technologies and patented ingredients, which we are looking to sell in the US market, where we have the last few years of patent protection.

Dilip Sahu: Sure. Flavours business had a huge growth this quarter. Does it mean that the issues we had of overstocking in Middle East is over, and Rs. 65 crore, Rs. 70 crore is the number that we see going forward?

Kedar Vaze: The issues were largely on exports. I think the export is now more streamlined. Domestic growth has kicked in with certain segments of the food flavour business. As I mentioned earlier in the call, we are now at a stage where the business has

grown to the next stage of strategy plan. We need to look at the next 3 to 5 years, which are the segments we want to continue to invest and grow. Certain parts of the business, we may want to kind of look at the steady state or different strategies around ROCE and the margins and which part of the business.

So far, we have not been very selective on the sectors within Flavours where we are operating, we are taking business as it comes. Now we have a situation where we have built a size enough that with the next strategy, we will need to invest in capex and capability, specific equipment and we need to decide on which categories and sectors we want to focus and which categories and sectors we may want to sort of look at as less strategic.

Dilip Sahu: Sure, sir. So if I go by the guidance of 12% to 15% revenue growth, 12% per you, we have to head up an Rs. 250 crore, Rs. 300 crore to our top line next year. Since Europe is growing at 8%, 9%, which is a good growth and unlikely to grow faster than that, can we say that most of our growth will come from market share expansion in India and Flavours growth? Is that the correct understanding?

Kedar Vaze: I think we will see growth across the regions. At the moment, we are seeing growth in Europe. We have seen growth in new markets, Ingredients business is reviving, Flavours is growing and as well, India small sector is helping us to grow faster than the larger FMCG volume growth. So, I'm seeing growth across all the sectors of our business. With the Southeast Asia factory being operational, I think that will give us another spurt of growth in Southeast Asia.

Backward integration should give us good middle term 2 years horizon for Global Ingredients recovery both in terms of margin as well as revenue growth. So, I think the basics for each part of the business have been put in. We will continue to monitor, continue to look at how to manage it more efficiently, and the growth momentum has been built in a sustainable strong manner.

Dilip Sahu: Sure. If I can ask one last question. You talked about 20% ROCE if we reach around 12% to 15% additional volume of business, which is essentially what will be by end of next year. So, does it mean that the 16% to 18%, which you usually say is the margin band, will be the higher end of 18% margin band when you reach Rs. 320 crore, Rs. 400 crore of revenue?

- Kedar Vaze:** I think the profit percentage on sales may not change. But the capital intensity of the business, which is a large amount of inventory. So today, if I ballpark look, we are generating Rs. 130 crore, Rs. 120 crore of PAT for a full year extrapolated number on a ballpark Rs. 1,000 crore of total capital employed. So, if we can reduce the capital employed by Rs. 100 crore of inventory, which is likely to happen in the coming year, and continue to grow 10% top line, we will basically see a Rs. 140 crore or Rs. 150 crore level of PAT with Rs. 900-odd crore of capital employed. So it's kind of 10% growth and 10% inventory control, and we will be at the 20%, which we want to be.
- Dilip Sahu:** Great. Fantastic. Just last one, if I may. The MNC deal you said will take up another 12 to 18 months to ramp up. From what I understand, the multiple small orders that comprises of Rs. 300 crore, why is the ramp up taking such a long time? Because you have already taken 1.5 years to get the deal. I thought all the back end, everything is in place. So, is it a customer side issue, why the ramp-up is taking such a long time?
- Kedar Vaze:** Yes. So, the project was sort of in a redesigned phase and they had a revamp of the project a few months ago. So basically, the kind of the timelines have been reset and project has moved ahead with a new starting point.
- Moderator:** The next question is from the line of Jainam Ghelani from Svan Investments. Please go ahead.
- Jainam Ghelani:** Sir, when can we expect to come back to the peak margins of 18%?
- Kedar Vaze:** I mean, we are there about. A few tweaks, maybe a few of the bigger products going in quicker, and we should see excess of 16% margin. In a good quarter, we could reach 18%. But I think on an average, longer term, I would drive for 16.5% -- 16% EBITDA on sales as a consistent, sustainable way forward.
- Jainam Ghelani:** And sir, as you guided, can we expect ROCE to be above 20% in the next 1 or 2 years?
- Kedar Vaze:** Our target would be to bring it to around 20% and above on a sustainable basis in 4 to 5 quarters from now.

Jainam Ghelani: Let's say, if we grow at 12% and if we have 16% margin, our ROCE does not add up to 20%.

Kedar Vaze: Because the capital base also has to be reduced by 10%, which is the inventory plan we had.

Moderator: The next question is from the line of Amarnath Bhakat from Ministry of Finance of Oman. Please go ahead.

Amarnath Bhakat: I had just few questions left. One with respect to this pricing power. So just to understand, if raw material price fluctuates, either goes up and goes down, are you in a position to pass on those raw material prices either positive side or negative side? And if yes, what would be the time lag?

Kedar Vaze: So normally, we see a trend. And if there is a substantial increase or decrease, we negotiate and discuss with our clients on the same. Typical time gap between the, let's say, post major event or large price disruption or cost disruption to pass on is between 4 to 6 months. And we typically have contracts and stocks in hand to cover for this period. So, we are selling with our inventory in hand, which is a natural hedge for any fluctuation.

Amarnath Bhakat: So, it is in the context, I'm asking say last few months or quarters, you might have observed reduction in your raw material costs which, of course given you some extra EBITDA margin. So, with that extra margin coming out of the reduction in the raw material cost will eventually be passed on to the customer?

Kedar Vaze: So, I think it depends on how the trend remains. We believe that the trend is sort of transient because general inflation across, I mean, chemicals, across as we see in the global markets, is not coming down as fast. These are specific product-related things which have come down. And we have inventory, so at the moment, we are bringing it down. We are averaging the holding costs. So, we take advantage of lower prices.

But these are, I think, transient because I am not 100% convinced that we are not away from another disruption. There is a Chinese New Year, which the entire chemical business in China is closed. And with the disruptions in the kind of Red Sea

shipping, there is further time lag and lead times and costs, which are piling up. So, I believe that the cost may stabilize and may slightly go up. So, we are considering that before we go back to the clients with any corrections.

Amarnath Bhakat: Actually the purpose of asking the question is because throughout the call, we understood that there is a possibility of the margin improvement. And maybe part of that will come from the gross margin because there is always a limit to increase the margin through the efficiency level.

So, what we have now understood from you that there could be a possibility from that gross margin side, but the majority of the projected margin expansion, would come from efficiency improvement as well as probably some pricing increase?

Kedar Vaze: So just to give a little bit more longer-term perspective on that, the gross margin last year, we had a negative situation, and we were below the average gross margin that our industry and we have enjoyed for many years. So we are now in a situation, which is more like the average gross margin realizations of the product mix. So, there is no large jump upwards. We have just restored back to the historical average.

Amarnath Bhakat: So, can we assume the current gross margin level, what you achieved in the current quarter will be more or less sustainable in the near future?

Kedar Vaze: I expect so unless there is any major disruption and some kind of force majeure event. In a normal course of business, these are sustainable gross margins.

Amarnath Bhakat: Okay. If I may ask one last. Regarding the current disruption, which you see into this Red Sea related activities and probably the resulting increase in the transportation costs and the transportation time and since you are exporting as well, are you feeling kind of a small disruption at the moment? And what is your view on that? Is it going to impact your business anyway?

Kedar Vaze: Not much, like we talked earlier, most of the European side business is serviced to the European operation, Asia to Asia. So, the transit times and this effect has been fairly small for us. But on the longer term, these things start to add up.



Moderator: Thank you. Ladies and gentlemen, we will take that as the last question. I would now like to hand the conference over to management for closing comments. Over to you, sir.

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

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

-End-

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