November 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 Q2 & H1 FY 24 Earnings conference call for investors and analysts organized by the Company on Monday, November 6, 2023 at 12:00 Noon 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: 2023.11.10 10:00:57 +05'30'

Rohit Saraogi
Company Secretary & Compliance Officer
Encl: As above

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S H Kelkar and Company Limited

Q2 & H1 FY24 Earnings Conference Call

November 06, 2023

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

As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

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

Anoop Poojari: Thank you. Good afternoon, everyone and thank you for joining us for S. H. Kelkar & Company Limited's Q2 and H1 FY24 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'll begin the call with opening remarks from the management, following which we will have the forum open for a question-and-answer session.

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

I would now like to invite Kedar to make his opening remarks.

Kedar Vaze: Thank you. Good afternoon, everyone and thank you for joining us on our earnings conference call today. I hope you have gone through our Results Documents which were uploaded earlier on the exchanges.

In Quarter 2 FY24, we sustained a healthy performance continuation with our Quarter 1 performance. Our Core Fragrance segment delivered 13% growth during the quarter. This segment's growth was supported by increase in domestic market, higher sales volumes reported across our diverse customer base. In particular our engagement with large corporate and global MNCs has started to show positive impact with an excess of 20% growth.

Our strategy in Europe will continue to be focused on bottom line improvement as we have reached more than 85% capacity utilization. We are pleased to report that we have restored our EBITDA margin in European business back to normal levels. Overall, we have reported a 10% revenue growth and a 25% EBITDA growth with the European markets showcasing steady results.

Regarding our Flavours division, revenues during the quarter were lower by 4%. In this segment international market witnessed a downturn in revenue due to channel destocking and strategic inventory adjustment by clients. On a positive note, our domestic revenues in this division continued healthy growth registering 12% increase.

On a consolidated basis our operating EBITDA increased by 26% to Rs. 76 crore maintaining margins at 16.7%. Our core European business also contributed to the improved performance strengthening our outlook for the remainder of the year.

Moving on to the business update:

I am pleased to announce the successful acquisition of the remaining 19% equity stake in Holland Aromatics, making it a wholly owned subsidiary. This complete integration with our organizational framework is anticipated to yield multiple synergies. By fully integrating Holland Aromatics into our European company structure, we expect to unlock several synergies. Collaboration of expertise, resources, market insights, should help us further strengthen our presence in the European domain.

Coming to the Global Ingredients segment, we have continued to advance our backward integration strategy following the agreement with a third-party vendor established in the previous quarter. This collaboration has helped strengthen our supply chain and we have successfully reduced our sourcing from China by over 30%. We are confident that this will enhance our supply chain resilience as we move forward.

In conclusion, we would like to state that our commitment to growth and business excellence is highlighted by our extensive international footprint, strong client base built over the decades and continual investments in R&D. As the fiscal progresses, the expected upswing in domestic FMCG sector coupled with our strategic measures should enable us to close the year on a strong note.

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

Moderator: Thank you very much. We will start with the question-and-answer session. The first question is from the line of Bharat Gupta from Fair Value Capital.

Bharat Gupta: Just a couple of questions from my side. First in respect to the Fragrance segment, so do you mention in the opening commentary that it has been led by volume growth across the domestic and export business. But just some quantification with respect to what percentage has been primarily driven by volume and the pricing front? And secondly in respect to the customer in categories, so you mentioned that 20% kind of a growth has come in from the large corporate. So, just want to get a sense whether the growth has been broad based across all the categories irrespective of MNCs or it is confined to them only?

Kedar Vaze: So, to answer your first question, about 2% of our growth has come from pricing. The remaining growth has come through volume growth. This is on overall basis. Then second question if you can just repeat.

Bharat Gupta: I just wanted to check like in terms of the volume growth across the domestic and the export.

Kedar Vaze: Volume growth across domestic and export has been robust across all segments. The volume growth on the large corporate global MNC has been higher and other customers, the more mature markets they continue to grow in double digits.

Bharat Gupta: The large corporate should be constituting less than 10% of our overall revenues. If my understanding is correct?

Kedar Vaze: It is about 25% of our overall Fragrance revenue.

Bharat Gupta: Secondly can you just throw some light with respect to the new products which we are working upon. So, we are seeing that there has been an increasing demand for the premiumized kind of a products in the personal care category. So, in this particular segment how are we placed and what kind of a products we are working upon?

Kedar Vaze: We are engaging with all the different types of clients, both startups, e-commerce, small clients, large clients, existing mature FMCG clients, as well as global MNC clients. So, we are working across all the segments for both premium as well as mass market or value for money products. There is not one or two projects, there are large number of projects which is part of our normal course of business. In addition, we have continued investments in cosmetic ingredients which is a new area for us and that will help us to boost our approach towards the upcoming premium e-commerce offerings that are coming in.

Bharat Gupta: In terms of the revenue contribution, from the products which we have launched post the COVID era. So, what kind of a contribution is coming out to the overall revenues?

Kedar Vaze: In terms of the overall it will be around 3% in terms of the new products within emerging markets its around 6%.

Bharat Gupta: The reason why I asked you this question is primarily to get an understanding whether the volume growth which we are witnessing, so that has been primarily coming in from the new age products or it is coming in from the existing set of products mainly.

Kedar Vaze: The volume growth largely is coming kind of half and half. There is a normal growth of 5%-6% year-on-year which we are seeing this year versus last year where it was muted. We are witnessing normal traction this year plus we are seeing 5% to 6% of new products across the range. There are obviously some as the percentages are very large because they were only trials for last year. It's a bit incorrect to put these percentages. But we are doing across the board except existing business is growing as well as good engagements in the new products.

Bharat Gupta: Also, on the RFQ front, is there any kind of a finalization which we need, you have the visibility for FY25 now or still it is the work in progress and probably we'll see the finalization to take some more time?

Kedar Vaze: So, RFQ is not one large ticket thing. So, there are many subparts and finalization is happening on various timelines. I don't have anything, any update to give between last quarter and this quarter to change the position there, so that RFQ position continues as it is.

Bharat Gupta: Just irrespective of RFQ. if I look at FY25 and with the kind of a product mix which we have and with the kind of demand which we are witnessing across the domestic and export bit, can you quantify with the kind of a revenue growth in double digit across the segments whether it is Flavours or Fragrance that kind of a growth is sustainable excluding the RFQ part.

Kedar Vaze: Yes, so we have given a guidance for 12% revenue growth in a medium term. We have achieved that for the first half of this year, and we are confident to keep this trend going forward.

Bharat Gupta: In terms of the Global Ingredients piece, so primarily there has been a dip in the overall revenues. So, just wanted to get an understanding like whether the revenue decline which we are witnessing is primarily coming in from the pricing pressure from the Chinese players and do you expect any reversal in the subsequent quarters as such?

Kedar Vaze: I think Global Ingredient is steady state. We have not been very aggressive on the market given the dynamics that the raw material is coming from China, and we are competing with very similar competitors, who are sort of backward integrated or who have a Chinese raw material supplier base. So, we have taken active steps to restore that.. With that, I think we will be in a position to grow this revenue and continue to grow it with aggressive marketing and volume growth.

Bharat Gupta: So, I believe the backward integration will happen over the next I think 12 to 18 months' time frame it will take and post which will we be in a position where we can remain on the EBITDA breakeven stage?

Kedar Vaze: Backward Integration is scheduled to happen in the fourth quarter this year after which we should be EBITDA breakeven.

Bharat Gupta: Last bit on the debt trend. So, we have a net debt position of Rs.450 odd crore. So, any immediate plans for repaying the debt over the next second half?

Kedar Vaze: No, there is no immediate plans to repay the debt. The debt as part of our operations every month, we are generating free cash flow and that is reducing the debt progressively. We have just concluded our investments in our Indonesia plant and the Holland Aromatic acquisition. So, all this extra cash flow generated in the operations has been deployed in this period. We don't foresee any large deployments in the next couple of quarters and debt levels would start to come down thereafter.

Bharat Gupta: So, will we be able to maintain net debt to EBITDA below 2x? That remains one of our priorities.

Kedar Vaze: Yes, we will always maintain it at that level or below.

Moderator: We'll take our next question from the line of Bharat Sheth from Quest Invest.

Bharat Sheth: When we say that in domestic market how much we are getting the business which because of decline in this raw material price, the small vendor which were out of the system has come back and how much we are seeing that from global MNC presence in India and how do we see some of these new startup and direct to sales people, if you can give some color and how do we see going ahead in the whole segment?

Kedar Vaze: Let me answer that as I understood the question. I think we have a very strong presence in the large corporate and the global MNC, that has done more than 20% growth for us on the Fragrance and as well as Domestic Flavours. We need to have a very strong engagement with the SMEs, the traditional MNCs, traditional FMCGs and we are now building a strong portfolio offering for the e-commerce and startup companies. So, across all the segments we are uniquely positioned to take up all their projects and take our fair share and more than our fair share of growth that is expected in the next 2-3 years. We are also proud to sort of talk about our cosmetic portfolio where we have a large set of natural products and cosmetic actives which our company has developed in terms of the science of cosmetics, and we have strong R&D pipeline. So, these cosmetic ingredients go hand in hand providing new claims and new ingredients to the e-commerce startup premium cosmetics what are coming on the sort of digital platform. So, we have very good pipeline of offerings for those customers as well.

Bharat Sheth: Is it possible to say some kind of a color, I mean what is contributing as of today and how do the growth in which is maybe growing faster?

Kedar Vaze: I think the bigger set of clients, which are our existing clients, are all growing at volume growth of 6%-7% plus new products are being introduced. The larger corporate and global MNC business is additional growth for us because we are not only growing but we are also taking market share. So, that is a much higher growth area for us and it's very difficult on the smaller size while the growth percentages will look very big because the client was very small and now, they are growing at 50%-60%. It's not on a total fragrance or total overall business of Rs. 1,700-1,800 crore. The new startup, e-commerce businesses are not significant additions in the volume or value, but they are very important for us to sustain the growth in the future years.

Bharat Sheth: And how do we see gross margin from here onward and EBITDA margin?

Kedar Vaze: I think we have done 16.7% EBITDA margin for this period, and we see that is a good level and if the raw material prices come down or there is a better tailwind, maybe we can do a little bit better EBITDA margin. But I want to be cautious on guiding anything given the geopolitical situation, any oil crisis or raw material crisis or any disturbances as a result of what is happening around the world. I don't want to depend on that trend. So, currently the trend is positive. We may do 16.7% and better. It depends on how the raw material and if there are no force majeures, no disturbances, no major macro events, I think we will do better than that. Just to allude to that, yes, we've also undertaken policy of having a good level of inventory at low cost which allow us to support our customers in the next two three quarters in a good way. That is also a strategy we are taking.

Bharat Sheth: How our pricing power is that we will be able to deploy to I mean in case of increase in raw material price we can pass it on?

Kedar Vaze: So, we have a very transparent policy with our clients and when there is raw material increase, we are in a position to negotiate and pass on the increase to the clients.

Bharat Sheth: And coming to this Europe business and the Flavour business, how do we see Europe business? Whether it is stabilized and there are also lot of change in MNC level, so any negative impact on account of that our large RFQ?

Kedar Vaze: No there is no change. In fact, it is beneficial for us. We are better positioned in our RFQ than maybe 1 year ago. So, it's a good positive development for us. European business continues as it is. We are as I mentioned more than 85% capacity utilization. So, at the moment we are focused on the right kind of products and customers, and we will focus on them. We will wait to understand the overall growth and macro situation in Europe before making any further investments.

Bharat Sheth: On our export to the Southeast Asia and Middle East, how the things are playing out?

Kedar Vaze: Things are running well. The commencement of our Indonesia factory is expected by end of this financial year. So, with that our overall capacity to address Middle

East and Southeast Asia markets will double and with that we will be more aggressive in these markets.

Bharat Sheth: In Fragrance business would you like to share some kind of outlook from here onwards?

Kedar Vaze: We are looking at a (+12%) CAGR growth here on and we will continue.

Bharat Sheth: On Flavour side?

Kedar Vaze: On Flavour side I think we are also looking at a 15% CAGR growth. At the moment our export business is under the question mark in terms of this quarter. Sales have been in exports always been sporadic. There have been times when one or two quarters the sale is low and then the sales pick up. So, we are waiting and observing how we look at the general trend. The export market is kind of seasonal but the full year we will be at, I think given that we are already behind, minus in Flavour export I don't see we will recover before the end of the year. But longer term there is kind of structurally nothing wrong. Again, macro events in the Middle East are in the news every day. So, we have to wait and watch and see how that plays out.

Bharat Sheth: With all this kind of a new customer coming, still we are guiding for a 12% kind of a growth or is there upside risk?

Kedar Vaze: Upside risk is there.

Bharat Sheth: Upside in the sense it can grow faster?

Kedar Vaze: So, the 12% is not factoring anything with the RFQ. So, whatever comes in with the RFQ additional is benefit or will give us additional topline.

Bharat Sheth: And even factoring this cosmetic side also, correct?

Kedar Vaze: The cosmetic side and the other sort of allied businesses which we have are quite small. They are not revenue drivers for us. They are unique selling proposition. So, the customer gets a combined package with fragrance and cosmetic ingredients. So, we see this as more as a long-term play, a lot of the e-commerce and startup brands need this service today and we are able to provide that. The business will mature over the next I would say 10 years.

Moderator: We have our next question from the line of Kunal Tokas from Fair Value Capital.

Kunal Tokas: My first question was, you mentioned in your opening remarks that the international market was affected because of the destocking that took place. So, do you see this destocking trend continuing in Quarter 3?

Kedar Vaze: So, this is largely alluding to the Flavours because we have few large clients and we see that the orders have started to come in. So, hopefully before the end of the year we will catch up on our run rate. But the destocking for Quarter 1, Quarter 2, particularly Quarter 2 was heavy destocking, we are already seeing signs of initial orders for this quarter coming in and Quarter 4 if there are no macroeconomic or geopolitical disturbances in that region, we are hopeful to make up the run rate for this year.

Kunal Tokas: And my second question was about the raw material prices. So, how are you seeing the raw material pricing trend in the future given that 25% of our supply base is from China, do you see any immediate benefit in margins from the easing of raw material prices from China?

Kedar Vaze: I think there are two parts of this. One is what is the spot prices. Spot prices have seen a movement down. However, as there are no supplies at these prices yet. So, we need to wait and see if the contracts are honored by the suppliers, and they actually deliver goods at the prices that they have booked. We already have some signs where default of contracts is happening at very low price or reduced-price contracts and higher price contracts are being supplied. So, while on paper the pricing has started to come down, we have also stockpiled on the inventory at this price level. We need to wait and watch whether there is any change in the supply situation. On paper there are good contracts at good prices, but the actual supply may not happen to the full quantities or to the desired price level. So, we need to wait and watch and see what the actual purchase prices is. We will monitor it and once the inventory is with us, we will then proceed to discuss with the clients on additional volumes and so on and so forth.

Kunal Tokas: And also, after the backward integration takes place, what will be our drop to exposure to China and will we be able to match them on the cost front?

Kedar Vaze: I think on the Global Ingredient side, we will be 100% backward integrated. We will have capacities to make everything in India. Then we are looking at least some quantity from China rest backward integrated. But from a capacity point of view, we will have full capacity backward integration in India possible. Overall, our China dependency in terms of 3 years ago to now would be roughly 30% down in overall value of everything that we buy. Specific for the Global Ingredient business we will be 100% independent of China.

Kunal Tokas: And lastly the CFF capacity is operating at nearly optimum utilization. So, do you have some plans to shift some manufacturing to Indian facilities and will it give us some benefit in terms of incremental operating profit margin?

Kedar Vaze: So, I was just answering his last question alluding to European capacity. So, at the moment we will look at utilizing the capacity to the fullest. We are having our plans on drawing down the synergies between CFF and Holland Aromatics and further enhance our capacity. Our India capacity will also get augmented by the fact that we will have the plant in Indonesia. So, we will support some of the export businesses out of Europe from our India plant. So, there is no immediate plan to invest in capacity in Europe and after a year or two of business depending on the market we will have to invest.

Moderator: We have a question from the line of Ganesh Shetty, an individual investor.

Ganesh Shetty: My question is towards supply chain management and raw material cost. Actually, you had a lot of challenges in the last several years on this front. Now I think these are well addressed. So, are you seeing any good improvement in EBITDA margin this Quarter 3 and ahead of this year?

Kedar Vaze: I think while the overall commodity prices are coming down, specific products continue to have some challenges. We are optimistic that steps that we have taken, contracts that we have made will enable us to support and supply our customers in full and support all their growth. We are still keeping our fingers crossed in terms of what is the net inventory cost decline. So, on paper contracts are at lower price. Once the supplies are received, we can then benchmark that, put that in our costing and accordingly approach the client.

Ganesh Shetty: My second question is regarding this festive season in India, mostly in third quarter of the year. So, will this result into any appreciable volume growth in the domestic market or any Flavour growth market? Because many years you are seeing lot of headwinds in the domestic market. But this year I think this domestic market is quite stabilized. As you have performed really well in the European market plus increasing your stake in Holland Aromatics also. So, do you think there's an overall effect will be a better benign Q3 for us comparatively than last year?

Kedar Vaze: I think all these effects that you alluded are already factored in the Q2, so Q2 is a good quarter. All of these effects are positive for us. We will continue to build on this in the upcoming quarters. There's no specific festival demand in Q3 because sales happen in Q3, the demand is in Q1-Q2. It doesn't work that after because there is lead time to the consumer. So, the sales for the festive season have already been factored in the Q1-Q2 sales. But we are seeing continued robust engagement across all our customers, whether it's in India, it's in Europe, the Middle East, Southeast Asia. We are seeing good engagement. We are seeing new businesses new products being approved. So, overall, the growth is intact. Flavour domestic as well is growing well. We have good engagements with large clients. The only kind of immediate scenario which will change in Quarter 3 is on the Flavour exports where we have seen muted supply in the first half of the year, and we expect second half of the year to better.

Moderator: We have a next question from the line of Amit Kumar from Determined Investments.

Amit Kumar: One question really, you sort of talked about Indonesia factory servicing Middle East. It is a little bit surprising. Wouldn't Middle East be better served from your existing India operations as it is?

Kedar Vaze: Yes, we will service Middle East better because our capacity in India will shift to Indonesia, so we'll have more capacity in India.

Amit Kumar: And then what proportion of your sales would be coming in from the Middle East territory as it right now, the first half really? Just a broad sense we don't need exact.

Kedar Vaze: Broadly about 10% of our overall business.

Amit Kumar: And just one small point again on this double-digit volume growth and how confident are you? Because I understand new products, but as far as we have seen the results of some of the large FMCG companies and I'm talking more from the fragrance, non-food side, we've not really seen 6%-7% kind of volume growth, more like 3%-4%. So, I'm just sort of wondering if restocking is very common you know in the industry. So, how confident are you of this double-digit growth?

Kedar Vaze: We are very confident of having volumes excess of the market growth because we are looking also at market share gains.

Amit Kumar: But in terms of I mean that's what I'm saying. I get the point on new products but the existing products, the existing clients.

Kedar Vaze: Something is a new product for us can also be a degrowth for a competitor. It need not be a completely new product in the market.

Amit Kumar: And anything specific which is sort of driving this kind of market share gain for you this year?

Kedar Vaze: We have opened up a whole new set of customers for both Fragrances and Flavours in terms of global MNC engagement and in terms of large corporate engagement. These engagements are fairly recent. So, we have low market share. So, we are able to gain market share in these areas.

Moderator: We'll take our next question from the line of Chirag Jain, an individual investor.

Chirag Jain: Kedar my first question would be, you told that in the near term there would be inventory pent up that is why you're stocking up. But just a broader time with regards to 6 months because now the world moving to the just in time theory. So, with regards to inventory rationalization happening overall, would we see back to our working capital dates which were earlier lesser as compared to what we are currently? Because currently also we are stacked up on the working capital. So, just opinion with regards to this, this is my first question.

Kedar Vaze: Yes, I think the working capital levels are on the higher side of the range that we want to be in. We will continue to do efforts to bring it down. Having said that this working capital level, our objective is to grow the sales and then the ratio of the working capital to sales will get normalized automatically.

Chirag Jain: Overall, the working capital cycle will improve because with improvement in sales then your receivables will also be something which would be bought in control, right?

Kedar Vaze: That's right.

Chirag Jain: And Kedar my second question is this is something which is off the market and the rumors which I heard that, the promoters are venturing into a real estate venture. And this is something with regards to S.H. Kelkar's facility which they have in Mulund. So, they are probably going to hive off that or they're going to sell it up and then develop a property. So, how true is that? Just wanted to have it right from your end.

Kedar Vaze: It's not true. The promoters have plots of land which are not linked to S. H. Kelkar at all. Those plots are being developed by other developers. So, there is no truth to this.

Chirag Jain: So, the Mulund facility where you had your research center that will be still kept with S.H. Kelkar only, so promoters would be running this business independently because this is the bread and butter, this is the original business?

Kedar Vaze: S.H. Kelkar facility is not being developed. This continues as it is. There are other plots of land that the promoter holds which some discussions are happening on development.

Chirag Jain: The existing promoter would be continuing this business.

Kedar Vaze: Yes absolutely.

Moderator: We have a question from the line of Nitin Jain from Dimensional Securities.

Nitin Jain: My question was regarding the employee expense. So, the employee expense had increased by 14% for this quarter YOY and for the first half it has increased by almost 19%. So, what is the reason for that? Any specific reason or just has the employee headcount increased?

Rohit Saraogi: So, on the employee side last year, first of all there is an increment of 8.5% average increment which has been given to the employees. If you compare with the previous year, previous year there was reversal in the variable pay as the performance was below budget. That has resulted in an increase which you see in the financials.

Moderator: Thank you. Ladies and gentlemen as there are no further questions, I hand over the call to the 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 clarifications or 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.

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

-End-
