Keva

September 06, 2019

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 Q1 & FY 20 earnings conference call for investors and analysts organized by the Company on Thursday, August 22, 2019 at 11.00 AM IST.

You are requested to take the same on record.

Thanking you,

Yours faithfully,
For **S H Kelkar and Company Limited**

S H KELKAR AND COMPANY LIMITED MUMBAI 400080

Deepti Chandratre
Company Secretary & Compliance Officer

Encl: As Above

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SH Kelkar and Company Limited

Q1 FY20 Earnings Conference Call
August 22, 2019

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, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anoop Poojari from CDR India. Thank you and over to you, sir.

Anoop Poojari: Thank you. Good morning, everyone and thank you for joining us on SH Kelkar and Company Limited's Q1 FY20 Earnings Conference Call. We have with us Mr. Kedar Vaze – Whole-time Director and CEO; Mr. B. Ramkrishnan – (Head) Strategy and Mr. Shrikant Mate – 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 Mr. Kedar Vaze to make his opening remarks.

Kedar Vaze: Good morning everyone and thank you for joining us to discuss the operating and financial results for the quarter ended 30th June, 2019.

I am happy to share that we have started the new fiscal year 2020 on an encouraging note. During the quarter, we witnessed initial signs of healthy recovery and broad-based normalization in the domestic and global operating environment. During the recent months, especially, post the election poll results, we also saw a strong revival in new product and brand launches in the broader domestic FMCG market. In sync with this market trend, there was an improved traction in terms of order enquiries and leads, especially from our mid and large sized FMCG customer segments. This, along with increased momentum in client engagements and buoyant international markets, led to a healthy performance in our core fragrance business. Flavour division also witnessed a steady momentum during the quarter driven by increased client engagements and uptick in overseas markets.

Before we get into the operational highlights, let me also share a quick update on the raw material situation. As you all know, in the last 18 months, the Fragrance and Flavours industry had faced unprecedented levels of uncertainty in raw material supplies leading to volatility in global raw material prices. However, in the last few months, the industry has witnessed some signs of stability in the raw material supplies. We believe that if this environment continues over the next few months as well, then the raw material situation will fully normalize across the global F&F industry. With this normalization, we believe, we would be well poised to take on larger growth opportunities as there will be no raw material constraints.

On the operational front, the Company recently forayed into a new product category of Industrial use of ambience-fragrances for the consumer durables and automobile accessories segment. This marks a significant milestone in our innovation journey. We started this new category by initiating pilot projects with certain market leaders and I am happy to share that we have now been selected as a preferred partner by a major Indian player. In the coming quarter, we are optimistic of strengthening these offerings in the domestic market, which should further enhance the category's future growth prospects.

The Company has also launched an extensive portfolio of products in both the Fragrance & Flavours segments using the online platform to target the retail market. In the fragrance division, we launched 25 new variants of Keva Roll-ons, taking the total product portfolio to large number of SKUs spread over Traditional, Arabic and French notes of fine fragrances. In the Flavours division, we launched a new range of food flavours during the quarter. Both these product categories have received a great initial response and we look forward to targeting a wider and newer set of audience in the coming quarters.

Let me now briefly take you through the financial performance. Our Total Income during the quarter grew by 15% Y-o-Y to Rs. 271.5 crore. This was led by an uptick in demand in the domestic fragrance business, steady sales momentum in domestic flavours business coupled with a broad-based normalization in the operating environment. EBITDA for the quarter stood at Rs. 47.8 crore with margins at 17%. Effective 1st April, the Company has adopted the newly mandated accounting standard Ind AS 116 for leases, which led to lower rent expenses in Q1 FY20 by Rs. 3.9 crore. Adjusted for this, as per earlier accounting, EBITDA increased by 21% to Rs. 43.8 crore and margins grew by 78 bps to 16%.

Depreciation and finance costs increased during the quarter owing to the commissioning of the new facility in Mahad. Further, the adoption of new accounting standard resulted in increase in depreciation cost by Rs. 3.3 crore and finance cost of Rs 1.00 crore. PAT was higher by 6% at Rs. 19 Crore.

Coming to our segmental performance, our Fragrance division delivered a 15% revenue growth during the quarter driven by healthy uptick in demand in the overseas and domestic markets. Domestic Fragrance business witnessed a healthy growth of 10% while the International business grew by a solid 26%. Our operating profit stood at Rs. 36 crore, registering a growth of 21%. This was majorly driven by higher revenues and cost-optimization measures undertaken by the Company. In our flavours division, the revenues for the quarter stood at Rs. 28 crore, up by 14%. The domestic business grew by 7% and our overseas business grew by 20%. Operating profit was steady at Rs. 4 crore with margins at 13%.

Overall, from the medium to longer-term perspective, we continue to see immense potential in all our business categories. Although there are cautious sentiments in the domestic FMCG industry currently, our business outlook remains stable with improved order enquiries and leads. So, from a longer-term basis, a healthy revival in the domestic industry followed by an improving momentum in client engagement for new product launches should help drive our performance both in the domestic and global markets. Further, a steady raw material situation in combination with the Company's initiatives to improve working capital and operational cost efficiencies will also enable healthy earnings growth momentum going forward. On the whole, we look forward to delivering healthy and sustainable results in FY 2020.

With this 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 now begin with the question and answer session. The first question is from the line of Rahul Veera from Abakkus.

Rahul Veera: Just want to understand with the pressure on the domestic clients as well plus we are getting onto the front end by direct retailing, so clients like Vini or any other fragrance companies, would there be cannibalization or direct competition with them?

Kedar Vaze: No, our retailers are 6%-7% of our business. We cater to a completely different set of customers than the FMCG companies. This is just like distribution, for example our Flavours are taken via e-commerce platforms to remote parts of the country, where small entrepreneurs are using to make cakes or local bakeries are using these Flavours. So, this reach is an add-on reach for our products. There is no competition with any of our FMCG partners.

Rahul Veera: On the domestic side what kind of indications are you getting from the clients and after these indications, what are your estimates in terms of volume growth for FY 20?

Kedar Vaze: As I've mentioned in the last call, we are hopeful of a strong double-digit growth, both in volume and bottom-line for the year - domestic as well as export. We don't see any change from that.

Rahul Veera: In terms of the next 2 years do you think we will go for any acquisitions or we go for the debt repayment? What will be our strategy going ahead?

Kedar Vaze: I think we will be cautious on our acquisition strategy. We will not be aggressive. We have the completion of Creative Fragrances and Flavours acquisition lined up for second half of this year. Post that, we will look at other alternative options or acquisition targets, if something comes up. I would just be mindful that we need to anticipate the muted growth rates in a global basis, so accordingly we will be cautious in our approach for mergers and acquisitions.

Moderator: The next question is from the line of Rajesh, he is an Individual Investor.

Rajesh: At Mahad facility, do we make any other additives other than Tonalid?

Kedar Vaze: We have effectively three facilities at Vashivali, Vapi and Mahad in India, one in China where we make Tonalid and most of the other ingredients for Fragrance and Flavour.

Rajesh: So, we make ingredients other than tonalid at the Mahad facility?

Kedar Vaze: Yes, we make almost 200 – 300 other ingredients across the three factories.

Rajesh: Just to get a perspective, if the quality, the technology, the R&D, if all is same compared to Kelkar and any other multinational companies, what could be the price difference, when you offer to all FMCGs customer in comparison to these multinational FMCGs?

Kedar Vaze: Our business is completely built around the platform of innovation and differentiation, so the products are not comparable, so there is no price comparison like for like. All I would add is that from an operating efficiency cost basis, our operations in India are one of the most efficient cost structure plants in Fragrance and Flavours. So we have very good cost base and most of our products are proprietary and we will continue to be innovators, where we go to clients in terms of innovation from a consumer preference. Our pricing is at par with global MNCs.

Rajesh: Is the sales of the CFF company is already being merged with Kelkar?

Kedar Vaze: Not in this quarter, it is standing as an associate company, the one line profit share at the end of the accounts.

Rajesh: So when is it expected to happen?

Kedar Vaze: When we acquire the remaining equity, we will take up the consolidation.

Rajesh: Do we have any other group of companies engaging the same line of business?

Kedar Vaze: You mean promoter companies?

Rajesh: Yes.

Kedar Vaze: No.

Moderator: The next question is from the line of Vicky Punjabi from JM Financial.

Vicky Punjabi: On your revenue commentary side, it seems like it's in contrast with the environment that we have seen. So most of the FMCG companies have been complaining about a slowdown while you are saying that there is a good double-digit that you are expecting, what is actually giving you this kind of confidence here? What's actually changed over the last 6-7 months that the quarter actually saw a strong bounce back in the domestic fragrance revenues?

Kedar Vaze: This is the base effect because the comparable quarter last year was on a smaller base. So I would try to look at the first half of last year as my starting base and on that basis, for the first half, we would end up with close to 8% to 10% growth on the domestic front. The key point is that there were a lot of new launches and brands which were approved in the past 2 years but we did not see the actual launch. I think post the clarity on the elections, most of the brand launches or launches of the product were expedited. We also see that through the last 2 years most of the work that we have done on strengthening our supply chain and maintaining our service level has been appreciated by clients and they have given us a higher wallet share of their business, which means that we are going faster than the general market.

Vicky Punjabi: Similar thing on the raw material side because your commentary is stating that the raw material situation is now more stabilizing and you're expecting favorable scenario in terms of raw material pricing. The gross margin during the quarter we saw actually a compression, another 100 bps kind of a compression, so why was this and what is the outlook here?

Kedar Vaze: When you compare the gross margin of Q1 FY19 then there is a compression, but in Q1 FY19 as we had alluded there were supply disruptions which had caused us to focus on high-value, high margin products and the bulk of the May-June orders for large volume products had to be shifted in July so we have seen that shift of sale from the first quarter to the second quarter and likewise the revenue in second quarter was much higher and the margin was lower. So on an average run rate basis, we have maintained our gross margin vis-à-vis last year but sequentially we have improved our gross margin from Q4 FY19. More than the cost correction, I think the availability of raw material is easing out which allows us to go after large growth businesses.

Vicky Punjabi: Just on the cash flow front, so in this quarter you have an EBITDA of around Rs. 48 crore. The cash from operations that's generated is only Rs. 6 crore. Why is there such a mismatch?

Kedar Vaze: Again this is a mismatch from the raw materials side. We have ramped up the Mahad facility, so there is a huge amount of inventory that has come in as the starting inventory. Once the plant is running and we have built up the stock it will start to come down. We have also witnessed the raw material situation, where because of the price increases and availability concerns we increased our stock holding. As I mentioned the material situation is easing out so we will be able to control and reduce the overall inventory and have better cash flow, going forward.

Vicky Punjabi: What are the thoughts on that level? Is there a plan for reduction of that or how are we looking at it right now?

Shrikant Mate: As we look to complete the transaction on CFF, there could be increase in debt but with focus on compressing the working capital. Our expectation, as we speak now, is to have more or less same debt level at the end of the year as it was at start of the year.

Moderator: The next question is from the line of Amar Mourya from ALFAccurate Advisors.

Amar Mourya: On the growth part which you had indicated like in the first half because I believe Q2FY19 had a very high base, so you said that you will be able to grow around 8.3%-8.4%. So when we say a double digit growth, does this mean that second half is going to be significantly better than first half?

Kedar Vaze: Firstly just a correction, 8% to 10% growth I have indicated I don't know where the 8.3% number has come in. But 8% to 10% over first half is where we see. If you look at last year from revenue it was not evenly distributed quarter-on-quarter because of the raw materials scenario in the market. So we see first half our revenue particularly second quarter was much higher and third quarter and fourth quarter again was in line with normal or subdued a trend. So we see that the growth comparing with last year will be double-digit plus but we also see that it won't be on quarter-on-quarter comparable from last year. This quarter-on-quarter - first quarter was 15% for us - it won't be 15% if you compare last quarter-on-quarter. So we see a sequential quarter 3% to 4% growth in the last two quarters and we would try to drive the business in the similar manner going forward because these disruptions have been in the last 2 years quite high. As things ease out, we will have a more normal sales mix.

Amar Mourya: So sequentially we should target 2%-3% kind of a growth is that a fair assumption?

Kedar Vaze: I think 3% + growth sequentially, we should be able to deliver. It kind of translates to 11%-12% for the year and at this point we have been indicating double-digit 12%, so I would put the indication a notch up by 2% and looking at the 12% out of base. But we need to be mindful that at some point if there is a cost correction and price correction, we may see a revenue decline by 1% or 2% although the gross margin and profitability should remain intact.

Amar Mourya: We were targeting about that CFF consolidation by Q3 and once it happens I believe it has a quarterly run rate of around Rs. 50 crore odd. You also indicated that once it is done probably lot of the costs will be knocked off and then we can see a like to like profitability on a bottom line also. So is it going to happen because what I see here is that CFF will be a kind of margin decretive business on a PAT front even though it may be equal margin on operating margin front?

Kedar Vaze: Our initial calculations seem to indicate that it will be an EPS accretive acquisition when we complete 100%. I will be mindful that it is on the basis of current performance continuing in the future. It's also considering what is the interest rates that we eventually are able to get to fund the acquisition. But by and large I don't see it will be EPS negative, definitely it will be on the positive side. How much positive really depends on the interest rate, hedging, cost of doing the transaction.

Amar Mourya: I just wanted to understand like currently if I see CFF has around 3.2% kind of a PAT margin based on the reported annual number and if you see our like to like net profit is around 8%. So that is the reason I am asking are we going to mitigate some of the cost that will pull the margin, net profit up or how it is going to happen?

Kedar Vaze: I think probably the net profit level will remain around the 8%-8.5% but we will be able to save some cost of management where we have two centers and we have multiple levels of management, so we can bring some synergies from that. We can also bring some synergies from raw material and development costs across both the companies.

Amar Mourya: So you are saying that this 3.2% PAT margin at CFF level can come up to the 8% level over a period of time or whatever the cost you are talking about synergies?

Kedar Vaze: I think 3.2% margin depends upon the nature of trading.

Amar Maurya: So you retain something at your end also?

Kedar Vaze: No we don't retain anything at our end. The nature of the business is different. Once we consolidate, we will be in a better position to give you a correct view.

Moderator: The next question is from the line of Kartik Mehta from IDFC Mutual Fund.

Kartik Mehta: I missed your initial remarks. I don't know whether you have touched based on the MNC tie-ups you were talking about last quarter, anything on that?

Kedar Vaze: We mentioned that we continue to work with large global and large corporate businesses on their projects. So there is no change in that, we are continuing to work with them. A momentum is there, we will continue to get official briefs and continue working for them.

Kartik Mehta: Just to get more clarity, you have already started supplying product, are they in a trial mode or they are already absorbed?

Kedar Vaze: This is the early development level, so it will take anywhere between 9 to 15 months for concluding business.

Kartik Mehta: In the last 2-3 years, our company has gone through all sorts of problems altogether, starting with your GST and De-monetization related issues, the small and marginal FMCG companies getting impacted because of GST and raw material side disruption and also we kept on expanding our capacities and by the inorganic way which has impacted the balance sheet to some extent, so we have turned from net cash to net debt company. So going ahead in next 3 years can we have some color that how you look at because you have seen all the pains and you have rightly corrected that timely and gradually? So what is your thought process on the revenue, profits and balance sheet 2- 3 year perspective because I believe the operating leverage is pretty large in your business? If you would have a double digit revenue growth your profit growth should be definitely higher than the revenue growth, it cannot be mimicking the revenue growth.

Kedar Vaze: I completely agree with you on that, hence we continue to grow and we typically talked about 1 or 2 percentage point better growth in the EBITDA and PAT. I want to keep my view up to the PBT and EBITDA which is something which we see and tax environment keeps changing. So I don't want to look at a very long term scenario on the tax. But on the growth if we do incremental growth faster than say 8% or 9% we will have operating leverage which kicks in and EBITDA and PBT will be faster growth than the growth of the revenue.

Kartik Mehta: And on the balance sheet front, you said that this year debt is going to be similar to the beginning but over the next 2-3 year perspective what is your thought process? Because I believe that you are largely done with most of the expansion on organic, inorganic and internal capabilities obviously you keep on developing but a large size CAPEX should not be there, unless and until you have something on your mind. So if you can give some color on the 2-3 year perspective on the balance sheet front.

Kedar Vaze: As Shrikant has alluded; we will be in a position to bring the debt level more or less at the same level in the end of March as it was in the beginning of the year. This implies almost Rs.150 crore of free cash flow generation and reduction in debt through the year. We are confident to achieve that number and run that through the system.

Kartik Mehta: That is for this year. I was referring to the thought process of the next 2 years because you would be obviously having some boardroom strategies.

Kedar Vaze: Right, subject to no specific major disruption or some major change like we have witnessed, we should be back on our normal track record of free cash flow generation thereon and then we can look at bringing down the debt and look at larger growth opportunities which would come up.

Kartik Mehta: While on a revenue front you seem to be more confident this time about the double-digit growth. On a raw materials side, supply disruptions from China and all, you said it's stabilized but when you say stabilized, the prices are still similar to the last year or do you think that they have already started going down?

Kedar Vaze: I think the actual prices have not started to significantly change but the availability has. So when we looked at last year when we had a certain business for growth and we wanted to buy additional raw material, it was at an incrementally higher price. That extra surplus, surcharge on pricing has gone, availability is normalized to large extent barring few products and we see that if this trend continues then it depends on the overall growth and supply demand scenario and if the global growth remains muted, we will see some softening of prices. So, we are waiting and watching. If the global growth remains at 3% to 4% for our industry, we will see a stabilization of prices. So today we have no surplus for shortage or premium for availability in the marketplace. We are seeing availability ease out across the board. Few pockets - there are price decreases, few pockets - there are still higher prices but overall on an average, the availability for growth is there. So we are confident to go after large volume business without having to worry about raw material scenario.

Moderator: The next question is from the line of Rahul Veera from Abakkus.

Rahul Veera: Just trying to understand, in terms of our client profile over the next 2 to 3 years, currently because of all the large contracts we have been talking about; will this top 10 concentration our client's revenue share proportion?

Kedar Vaze: I think it will increase, definitely it will increase compared to the past. But we will still have a fairly diversified business because we are working with almost 4000+ clients and even though we talk about concentration vis-à-vis historical context, we will not have any client more than a share of 10% of the revenue.

Rahul Veera: Where would you think that like the big contracts coming in, and when will this generation of revenue start for the contract that we have been working on?

Kedar Vaze: When we talk about big contracts, typically it is in phased manner of introduction. It doesn't happen all at once. It's not like a one-off; it will have phasing for the introduction. I think there will be 6 to 9 months of gap between the development and the launch of the product and so on so forth. So the ones which are alluded from a larger ticket, should have anywhere between 9 to 15 months from today when the revenues will be fully ramped up.

Moderator: The next question is from the line of Nitin Agarwal from IDFC Securities.

Nitin Agarwal: In your business, do you see any impact on the export side of the business of this entire trade tension between the US and China? Is there any positive or negative impact? Is it going to play in anyway?

Kedar Vaze: I don't think there is any direct impact for us at this point. We will have to keep observing this on product by product theme and see if there is any. So at the moment, I understand for most of our products, all the tariffs are in similar region and similar to India and China for example. There were tariffs differential in certain markets like US or Europe between India and China we would gain to benefit. Being mindful of the fact that now we have an operation in China and an operation in India, we are well placed to take advantage of the tariffs and accordingly plan our production and supply chain. So I don't think there will be any adverse business scenario. There may be some favorable scenario but we will by and large be near zero.

Nitin Agarwal: In your key export markets, what is your experience with the demand momentum?

Kedar Vaze: The demand momentum for industry as a whole has been muted but our performance in the overall industry in the last couple of years has given us a higher priority as a supplier or vendor and we continue to grow faster than industry in our global fragrance business.

Nitin Agarwal: Lastly on this CFF business, barring the synergies you talked about on the overheads front and all, what kind of synergies do you see on the cost synergies front that you talked about? Are there any over a next couple of years, what kind of revenue synergies do you see in the business?

Kedar Vaze: The market of CFF is fairly complimentary, so there is not so much revenue synergy in terms of their market and our market, market share consolidation so it's a different market which they operate in. But on the product development sharing, cost sharing of product development, cross selling their products in our region and our products in their region and in terms of procurement management, overall cost management we see that we can drive synergies and it also allows us to take global business account across major parts of the world. So everywhere between Europe and China except North America and South America, we now have an operations base and we can cover and supply any large accounts through Europe, India and China.

Moderator: The next question is from the line of Rajesh, who is an Individual Investor.

Rajesh: I had two questions, one is since most of the sales are B2B; is it true that we may not be able to increase the margin beyond a certain level?

Kedar Vaze: The industry as a whole, while it's B2B, it's very much a consumer preference industry. So at the end of the day, our business wins and losses are based on what the consumers like and what the consumers are willing to pay for each kind of Fragrance or Flavour. So margins are fairly stable and we don't look at ourselves like a commodity vendor for FMCG companies. We are a brand partner to develop the product that sells and that creates the "wow" factor for their FMCG products. So in that sense, it's not a cost element as much as a brand identity element of creating the product pool and it is also normally a very small percentage of the overall cost of the FMCG products. We see that our margins and global margins remain stable at around 20% EBITDA plus levels. We continue to be there, the flipside of that is we need to continuously invest in R&D and continue to look at consumer and new products and new technologies which we are doing well. We are very much in a proprietary innovation market.

Rajesh: As you mentioned our products costs are I don't know how much percent of the our customer product cost; even then we had a tough time during last year passing on the increase in the raw material prices. Why is it so?

Kedar Vaze: Because 25% price increase is unusual.

Rajesh: So that was the reason why they resisted for some time?

Kedar Vaze: Yes, it is unusual, it's a force majeure scenario and we have been trying to work such that the net impact to the end consumer is minimal and there is a momentum of the FMCG products and our business is all about brand momentum. If you have a big change in the product mix or in the pricing or consumer offering then there can often be market share loss and it is very difficult to regain market share. So we have to be conscious of trying our best whether with our customers to protect and grow market shares. In such a scenario we are acting as a buffer between the cost increases in the value chain to the consumer.

Rajesh: My last question is regarding the GST implementation. We are hearing in lot of other sectors having lost the cost arbitrage. Many smaller players, who are in the unorganized segment are closing down, are you seeing the same thing in this Fragrance and Flavour segments too?

Kedar Vaze: In the last call we have already talked about this churn in the customer mix so I am very much see the same trend.

Moderator: The next question is from the line of Amar Mourya from ALFAccurate Advisors.

Amar Mourya: Just wanted to get a little bit more on this large sized accounts or the MNC accounts which we were targeting and as you indicated that they are on the scale and we will see a gradual scale up. Will this kind of accounts be the similar margin account or you have to give some discounts to gain these kinds of clients?

Kedar Vaze: As I have already mentioned earlier the larger volume products are at a lower gross margin but you have lower operating cost per kilo and end of the day, the net margin on the product remains in a very close band.

Amar Mourya: So basically we will be supplying more of a large-scale sized product because I was also under the impression that we will be also looking for few patented kind of a product whereby you can squeeze some extra dollars from the client. So wanted to understand how that strategy is working for us. How many patented products are now commercialized that the client and if you can give some sense on that?

Kedar Vaze: We are not in the business of selling our patented products. We use the patented products in the development of our final products. There is no sale of patented products; it's an in-house technology which we use for our development.

Amar Mourya: But then does that kind of products give you extra margin which you made through this kind of technology?

Kedar Vaze: All our products have certain amount of in-house or proprietary technology or products and they are already in-built if the minimum selling product is patenting and the innovation is already part of our product offerings for many years.

Amar Mourya: So scale is the only thing will bring the margin other than that there is nothing so we have to shell out something at the client and just to get the scale?

Kedar Vaze: I have not really understood your question. Let me reiterate what I'm saying. If you have a product let's say 1 ton in a year; as it grows and it becomes 100 tonnes a year or 1000 tonnes a year then proportionate larger volume products have lower gross margin for the same product. For the same product as you go higher the gross margin on the variable cost for the specific raw material and direct cost keep coming down as a margin but your operating cost to manufacture also keeps coming down. So the net margin remains the same.

Moderator: The next question is from the line of Ajay Bodke from Prabhudas Lilladhar.

Ajay Bodke: You mentioned that the CFF business should get consolidated from Q3FY20, so if you leave that aside, so on like-to-like basis you are expecting a strong double-digit growth for FY20. Is that the right understanding?

Kedar Vaze: That's correct; it's not on the combined entity growth. It's organic growth, like-for-like.

Ajay Bodke: I missed the reply to one of the queries, you mentioned Rs. 150 crore of free cash flow generation for FY20, is that the right number?

Kedar Vaze: That is the target.

Ajay Bodke: For the current financial year?

Kedar Vaze: Yes.

Ajay Bodke: And lastly in the presentation you mentioned that the forays that you have made into two new segments. If you could just briefly dwell upon the kind of market opportunity in the medium to long term that these two force multipliers that could be for the company; both the branded small pack segment as well as the industrial use of fragrances?

Kedar Vaze: In branded small pack segments, we are already been present and continue to be in that market for number of years which is roughly 6% to 8% of our total revenue. In that segment, we have made some forays in the e-commerce channels. It very early to say how much of that business will develop in e-commerce but we see that as a new area. I would look at the current business and say 25%-30% of that roughly Rs.

20 crore is a potential from e-commerce that will play out over a period of time. So we see 3 to 5 years ramp up time and it could be potentially Rs. 20-25 crore of extra business with the same current product portfolio. You mentioned and alluded to what we call industrial use of fragrances so typically we are broad basing our Fragrance and Flavours offerings to areas which are not traditionally Fragrance and Flavour client or businesses. These include a wide variety of industrial segments which people are consuming consumer durables, white goods, automobiles, homes, ambience, and construction material, anything which is used in the house which is in a nature of a consumer durable. So our typical industry has always been focused on the FMCG or consumer products where the volumes are higher but we are also seeing a significant traction where our Fragrance and Flavour can create a USP in an industry which is historically not Fragrance and Flavour industry. So textiles, automobile, all the consumer durables, all these products are eventually consumed by consumers where the Fragrance and Flavour is an important part of the product offering but they are not of a nature of every month consumption. So there will be capital goods kind of a nature and we are seeing good traction in this segment. We are putting additional research on delivery systems, on Fragrances and Flavours to encash on this trend or create this trend in the market.

Ajay Bodke: What is the current capacity utilization of the Mahad unit?

Kedar Vaze: Mahad unit is at around 70 – 75 % capacity utilization.

Ajay Bodke: How do you see the ramp up there?

Kedar Vaze: We are comfortable at the 70 - 75% capacity utilization.

Moderator: That was the last question. I would now like to hand the conference back to the management team for closing comments.

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 or CDR India. Thank you once again for taking the time to join us on this call.

Moderator: Thank you very much. On behalf of SH Kelkar and Company Limited that concludes the conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.

-End-

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