September 04, 2020

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 21 earnings conference call for investors and analysts organized by the Company on Thursday, August 13, 2020 at 02:00 PM IST.

You are requested to take the same on record.

Thanking you,

Yours faithfully,

For **S H Kelkar and Company Limited**

Deepti Chandratre
Company Secretary & Compliance Officer

Encl: As Above

S H Kelkar & Co Ltd.
Q1 FY21 Earnings Conference Call
August 13, 2020

Moderator: Ladies and gentlemen, good day and welcome to S H Kelkar and Company Limited's Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note 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 afternoon everyone and thank you for joining us on S H Kelkar and Company Limited's Q1 FY21 Earnings Conference Call. We have with us Mr. Kedar Vaze – Whole-time Director and Group CEO; Mr. B. Ramkrishnan – (Head) Strategy and Mr. Shrikant Mate – VP and Group CFO of the Company.

We will begin the call with opening remarks from the management, following which we will have the forum open for a question and answer session. Before we start, I would like to point out that some statements made in today's call may be forward looking in nature and a disclaimer to this effect has been included in the earnings presentation shared with you earlier.

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

Kedar Vaze Good afternoon everyone and thank you for joining us on our earnings conference call to discuss the operating and financial results for the quarter ended June 30th , 2020. I hope and wish that all of you and your families are keeping safe and healthy amidst the current crisis.

The quarter gone by started amidst an unpredictable operating environment. The spread of the COVID19 pandemic and the resultant lockdowns in the country caused overall disruption in our manufacturing and business activities, particularly in the months of April and May, 2020. In addition, similar lockdowns and restrictions across the international markets also impacted demand and sales for major part of the quarter. However, as lockdown restrictions across domestic and international market eased, we witnessed an encouraging demand pick-up, roughly around the last week of May, 2020 and continued into the month of June, 2020.

On a consolidated basis, our revenue from operations stood at Rs. 191.4 crore in Q1 FY21. In these extraordinary times, we undertook concerted efforts to maintain a strong financial and operating discipline that enabled us to seamlessly support business commitments despite the operating constraints. This, along with the stabilized raw material environment, enabled us to report normalized gross margins at approximately 44%. EBITDA margins also improved to 18% during the quarter. Reported PAT stood at Rs. 14.8 crore with PAT margin at 8%.

On segmental basis, the Fragrance and Flavor segment reported de-growth primarily owing to disruptions in the first month, both in domestic as well as the international market. Fragrance segment, however, witnessed strong traction in demand from the last week of May, 2020 continuing into the month of June, 2020. This resulted in a better-than-anticipated performance during the quarter.

On the operational front, I'm pleased to share with you that we have concluded the acquisition of the remaining 49% equity stake in Creative Flavors and Fragrances SpA in July, 2020. The acquisition is value accretive and synergistic business opportunity for us to expand presence into newer markets in Europe and also expand our portfolio within the high-growth categories of Fine Fragrances, Air Care and Fabric Care segments. Furthermore, through this acquisition, we will continue to broaden our product offerings by cross-selling solutions and sharing R&D and knowledge base to create and launch innovative products in global markets. CFF continues to report healthy results despite the challenging operating environment. During the January to June, 2020 period, revenues from the core Fragrance segment stood at Rs. 71 crore with gross margins of 55%. PAT margins remained stable and we expect it to improve going forward.

From a balance sheet perspective as on 30th June, 2020, cash from operations stood strong at Rs. 61.5 crore which enabled us to further reduce our net debt as on 30th June, 2020 to Rs. 246 crore as compared to Rs. 299 crore as on March 31st, 2020. Following the payment of the second and final tranche for the completing of CFF acquisition of roughly Rs. 126 crore, the consolidated debt levels will increase. However, these would be peak debt levels for the company and given the cash generation anticipated in FY21, we are confident that the net debt by the end of the fiscal would be at similar levels to the last year. Furthermore, as we have no major CAPEX plans for the next few years, we should generate strong free cash flows going forward.

As we look ahead, we are hopeful that the demand scenario across the country will stabilize. In the month of June and July, 2020, we have seen strong uptick in enquiries and leads across domestic and international markets. In the domestic FMCG industry as well, there are positive signs that a recovery should strengthen from hereon. Our engagements with our customer base continue to be solid and our wallet share across accounts has remained stable. In addition, we bagged new wins during this period under review which is consistent with our new wins track in the last few quarters. We are constantly monitoring the macro situation and accordingly, undertaking all measures to plan operations, safeguard customer interest to the best extent possible.

On the whole, we are confident of our growth potential and opportunities across the domestic FMCG space as well as in the international markets over the medium to longer term. We believe that once the macro situation normalizes, we should be able to deliver healthy growth going forward.

With this, I now request the moderator to open the forum for any question or suggestions that you may have.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. We have a first question from the line of Sajal Kapoor from Unseen Risk Advisors.

Sajal Kapoor: Kedar, in the investor presentation, it says that the focus is towards making a sustainable improvement in the return ratios going forward. Now, around the IPO time in FY16, our ROCE was around 20%. Is that more like an aspirational number we could aim to look at over the medium term?

Kedar Vaze: If you look at the business, our investments are primarily future growth-based, more particularly in R&D. So our aspiration is to restore the business to the plus 20% ROCE levels and around the 20% EBITDA margin levels.

Sajal Kapoor: And secondly, given the fact that our business is relatively inelastic with a stable and predictable cash flows and balance sheet is getting back to good health now, what could be our capital allocation strategy going forward? And what is the debt repayment schedule like, so if you could just shed some light on capital allocation and our debt repayment schedule going forward?

Kedar Vaze: Given the uncertain macro-environment, we are very conservative in terms of capital allocation. We are basically operating our current business. And what we have undertaken, we have basically completed with the acquisition of CFF. There are no immediate plans for any major CAPEX or expansion around the current macro-situation. On cash flow and debt levels, as we have indicated before, we are now at the maximum level of debt that we would be in the annual cycle. At the end of March, 2021, we should be back to the same levels of debt as at the beginning of the year. We plan to roughly bring in Rs. 140 crore of cash flow this year.

Sajal Kapoor: Do we aim to keep the cash on the balance sheet or go for some sort of enhanced dividends or buyback? I mean, what's the sort of larger strategy around the cash flow utilization?

Kedar Vaze: So, we will use the cash flow to bring down debt and we will also keep in line with our distribution policy of roughly between 30% and 40% of the profits of the year to be paid out to the shareholders.

Sajal Kapoor: So keeping the COVID thing aside, what are the key risks that we need to watch out for in a more normalized operating environment for a business like ours?

Kedar Vaze: Given the couple of years of uncertainty and low growth environment, we have taken quite aggressive steps to manage our costs, particularly fixed costs, converting some of the cost to much more variable form. This allows us to be very nimble, allows us to focus on business opportunities with a focused team and dedicated approach.

So from that angle, we have de-risked ourselves from such events in the future. So if it is a macro event like the COVID, obviously, it will affect all business segments. But if there were particular challenges in one region, one category or segment, we are able to better realign our resources to opportunities that grow. This is the part that we have done.

On the question of risk, we have de-risked our model to a large extent and our large risk is basically at what momentum and growth rate does the FMCG and the markets we are in actually grow in the next 2-3 years. So, we have now a more flexible approach. I think, the risk is still basically in reverse, if the market were to rebound and the growth were to come back in a very strong measure in these markets, then we may be a little bit caught out with our R&D preparation because we have substantially downsized our R&D in the last year and continued to focus on the slower growth trajectory that we expect.

So the risk is if things start looking up and things go back much faster, then we may have some challenges to ramp up our development pipeline. But other than that, I don't see any major risk.

Moderator: We have next question from the line of Alpesh Thacker from Motilal Oswal Financial Services.

Alpesh Thacker: The first one would be the EBITDA margins improved in this quarter on account of better raw material pricing as you had suggested that it has already stabilized in the past two quarters. The second was the cost optimization measures that we have been taking for the last couple of quarters. Just want to understand how sustainable are these two measures going ahead into the future quarters as they stand today?

Kedar Vaze: If you compare like-for-like this quarter versus last quarter, there is substantial reduction in the fixed cost, both the employee and other costs. This is, I would say, about roughly half which is long-term measures and half which is measures which are specific to the situation of this quarter. We have converted, as I mentioned earlier, some of our fixed costs into a variable format with our vendors and employees to have a more nimble and more focused approach to what is happening on the ground. So that has allowed us to bring down the costs for this quarter. So typically, if you say, employee cost, we have a reduction of Rs. 6.3 crore versus last year. I would think almost half of that is sustainable, real advantage, real cost reduction and the remaining is specific to this quarter. Similarly, other expenses, we have brought down almost by Rs. 12 crore vis-à-vis similar quarter last year. But these are sort of semi-variable where fuel, power, these kind of things were not incurred, as our factories were almost closed for one month, almost Rs. 8 to 9 crore of what we otherwise call fixed costs are completely down to zero. Power and fuel and things like this, normally have a minimum charge. Fortunately we were able to keep it at minimum levels when the factories were completely closed, I would estimate, I don't have the exact number because small parts of the factory were running, some of the costs are additional costs because of the COVID. But roughly, Rs. 8 to 9 crore of fixed costs were one-off costs savings in this quarter. I would say, put that together, roughly Rs. 10 crore of cost saving for this quarter are one-off and the balance are sustainable going forward.

Alpesh Thacker: Second question is on the consolidation that we have done. I was looking at the gross margin for CFF. So, on a blended basis that the gross margins are lower than what our core business right now has. So do you see margin pressure going ahead on a blended basis for the company post consolidation which has happened?

Kedar Vaze: So I'm not exactly sure which number you are referring to. Yes, in nature of business, there are two businesses. One is the Contract Manufacturing business, which is a low-margin business, maybe 5% ballpark, although it is not separately shown. And the other is the Core Fragrance business for which the gross margins are in excess of 50%. So, we are actually integrating the Core Fragrance business with our business. The Manufacturing Contracts with some of the large FMCG players is an approach towards being able to service that market. But that's not our main growth area, that's in a way covers our operating overheads in context of CFF.

Alpesh Thacker: Last question is on the Flavours business; so as far as I understand, that Flavors is more of an essential item. But at this time,de-growth in the Flavors business is more than the Fragrances business? And also, this segment has been facing a quite volatile growth level for last many quarters. So what's the future outlook on this segment going ahead?

Kedar Vaze: So while the Flavor business is much smaller and clearly, any incremental business gain or loss becomes a big percentage of the business. If you take Rs. 2 crore business gain or loss on a Rs. 100 crore base, the kind of percentage volatility is much higher. But when you drill down to product-by-product, customer-by-customer level, there has been consistent growth in the Flavors in double-digit plus. We have had one large citrus oil based business, which was roughly around Rs. 25 crore of revenue, which we had to exit ,. So, that had caused a big volatility in both quarter-on-quarter and year-on-year. So, if you take that out, our business has been fairly stable in the historical context.

In the first quarter, we have a much higher de-growth on the Flavors. We have also a seasonality in Flavors in terms of products like beverages and ice cream and so on and so forth, which are more summer products, consumed during the mid year d typically from July- August,but the range is lower. And then it picks up again towards the winter season. So we have lost Rs. 5- 6 crore estimated ballpark due to the fact that we had a lockdown just in the middle of the summer period. So, that is a seasonality part which is more pronounced in the Flavors. In Fragrances, there is no real large season in our product portfolio. So we have a bit of seasonality but it's like plus or minus 2%. In Flavors, it is plus or minus 15% from a seasonality point of view.

Moderator: We have next question from the line of Manish Jain from Gormal One LLP.

Manish Jain: Kedar, I just needed insights on two questions. First is on working capital. For every Rs. 100 incremental sales, how much is the increase in your working capital broken up into inventory, debtors and creditors?

Kedar Vaze: So on the working capital, our working capital is largely inventory. While you may see quarter-on-quarter end of the year position of debtor, creditor has substantially gone up and down in the last 2 years because of the GST and force majeure situation. On the longer term, our payable and receivable cycles are fairly well balanced. And the working capital is basically the net working capital which is largely equal to the inventory that we hold. I would think if 100 days of sales is our incremental inventory, then we need to still hold some minimum inventory of various ingredients, which is roughly Rs. 100 crore of inventory. So if I look at current basis, we are at roughly 160 days, because the revenue for this quarter has been lower. But on a normalized basis, we are at a 135 days of sale as a net working capital and incremental sale, our net working capital inventory requirement is around 100 days. So this 138 will start to come down about 10 days on everyRs. 100 crore of growth.

Manish Jain: And the second question is, can you share insights on the level of digitization across the company across different functions?

Kedar Vaze: So obviously, we are in a brick-and-mortar manufacturing side of the business, where the labs and the production require to connect with the products, so that is fully brick-and-motor in our factories and labs. From the rest of the processes, we are digitally enabled. I don't think we are or were anticipating any kind of major disruption, like we have seen in the last few months. But we are enabled to operate in the new work-from-home and various kinds of initiatives around that. I think we are not probably cutting-edge as far as the digitalization as a theme. The major issue in terms of Fragrance and Flavor is that the product has to be experienced. So any product development in, for example, in music or art, you can digitalize the format versions, designs and send it across the world. In our case, that's not required.

Manish Jain: And my last question was on customer and product concentration. So what would be the contribution of top 10 customers and top 10 products per year?

Kedar Vaze: So the customer and product concentration has not changed substantially from where we were before. I think the top 10 customers account for around 25% of our revenue. And I can send out the exact details subsequently.

Moderator: We have next question from the line of Madhav Marda from Fidelity Investments.

Madhav Marda: My question basically was do you think you have scaled down the R&D spending. Just wanted to understand is that something which is sustainable or do you think that's the right approach, considering some of our global competition invests a lot in R&D or is it moved from a more fixed to a variable model, so that's how it should work now going ahead?

Kedar Vaze: So the question has many aspects to it. Typically, we have a 2 to 2.5-year product development cycle. So what we are developing now will hit the market in 2-2.5 years when we have to catch the trend of the market 2-3 years down the line. So, for that, we always need to do R&D spends a bit earlier than the market revenue or growth. Unfortunately, with the GST, demonetization in the last 2-3 years, the growth has been behind the curve in terms of new product launches in the market. So we have now enough prototypes and pipeline for the immediate 2-3 years of growth. We are not intending that we will have the R&D permanently at a standstill or reduction phase. Once the revenues start kicking up, we will proportionately start redeploying in R&D and future development. So at the moment, in the overall picture, we are R&D invested. So we have the prototype, we have the products; we have the library, everything pretty much ready for the next 2- 3 years of anticipated trends and business. To give you an idea, we have within the last quarter, substantial wins in sanitizer and other categories that came up as a result of COVID. And we were able to address them through the library of prototypes we had already created. So we know that our library is very robust. And what we have been developing in the last many years and particularly, in last 3-4 years, it's coming to us and we will be able to manage the market demand from that library and then add to it for improvements.

The second question was in terms of global R&D and their spends. So, global company spends are much higher than our average spends. The spends are higher and if you look at the nature of business, they are also in much more premium products in terms of per capita spend markets like Europe and America. So their margins on some of these categories are also higher. So these are different market dynamics where you need to have a bit higher spending on R&D and product margins which are higher as a consequence. That's why as we look back in history, we were sort of spending 1% to 1.5% of our revenue in R&D. We have upped that to 3.5%- 4%, even 5% last year. And this is the phase where we are confident that we have enough R&D pipeline. We have the right resources and we deliver the same results with 3.5%-4% revenue to R&D than what the larger global companies are doing with 8% to 10% of their revenue as R&D.

Madhav Marda: So if I go to last year in FY20, we spent about 5% of our sales on R&D. What does that number look like for the next 2 to 3 years, considering that we have enough liability available?

Kedar Vaze: So we are targeting around 4% of sales as R&D expense as our light path for the next 2-3 years. So as we grow, we will put out more resources. It depends on the growth rates.

Madhav Marda: So basically, 1% of our sales we are saving on the R&D cost for the next 2 to 3 years. That's the way to think about it?

Kedar Vaze: That's right.

Madhav Marda: The other question was in terms of the CFF acquisition, the gross margins looked quite healthy. But how was the EBITDA margins in that acquisition and how do you see the revenues and the margins shaping there for the next 2 or 3 years?

Kedar Vaze: So, the CFF business has been well-managed and run. We have been participating in the management interactions over the last 2 years. We have been tracking the business and opportunities and also building some complementary products in India and in CFF. The overall scenario there is a very similar business to our business in India as a large market presence in the Italian market across the broad segment products in Fragrances. We see that it will continue to grow at a 6% plus CAGR in euro terms, and has demonstrated this over the last (+10) years. So we don't have any concern that it will continue to grow.

Last year, we have also initiated and invested about €1.5 million of CAPEX in CFF, which is already executed. So we have additional capacity built there in line with our overall philosophy to have the capacity ahead of the anticipated growth. We have working systems in terms of product development and technical people to exchange the product concepts or product designs from CFF to rest of the Group. So we see that the both the businesses will benefit from this synergy. These products will be available in the emerging markets, where we can sell them. Likewise, some of our technologies and new molecules and high-end technologies, the market in India and emerging markets in Asia is not yet ready for them. We can use this to market in the European markets, where the market is already set up for capita spending on fragrances to absorb these technologies.

Madhav Marda: My last question would be, basically, this year, like you mentioned in your press release as well that the market for Fine Fragrances might be a bit muted this year, but the sanitizers in turn should do better. I know it's a bit tricky to sort of answer this. But on the whole, do you think the weaker demand on fine fragrances, which, sir, can be compensated by the higher sanitizer demand or how would that play out?

Kedar Vaze: So I don't think sanitizers alone, when I talk about sanitizers or new demand, it is everything related to COVID, which includes soaps, personal wash, fabric wash, immunity products. All of the sets of health and wellness products that demand has gone up. If you look at our overall basket of these categories, the Personal Wash and Fabric Wash categories are roughly 40% of the sales and our Fine Fragrance is roughly 20% of the sales mix. So the Beauty and Fine Fragrances products will decline. The Personal Wash and Fabric Wash which we include also things like sanitizer and any kind of floor cleaning, dish washing, surface cleaning, lots of different things that have come up in a big way in terms of COVID. Those categories are growing. So overall, the product mix will be slightly different but we anticipate that there will be continued growth in the revenue line. On the margins front, as I mentioned earlier, we will see a roughly 1% or 2% gross margin erosion on the account of the product mix but we are also seeing a decline in some of the key raw materials which would allow us to improve our gross margin. So I'm still looking at the same gross margin level of roughly 43% for the full year.

Madhav Marda: And overall, the EBITDA margin is basically, you sort of guided towards reaching 20%. So how many years do you think we can get to that level? Is it like a 3- 5 year journey to get there?

Kedar Vaze: We are already at 18% in this quarter because it of exceptional cost measures. But if we did a full quarter with regular sales, we would be at 18%, effectively quarter-on-quarter going forward. I mean, not taking this year into account because there's a lot of variability, FY21-22 onwards, we should be in a sustainable EBITDA of 18%+.

Moderator: Our next question from the line of Ankit Pande from Quant Mutual Fund.

Ankit Pande: My question is around some of our discussions that we've been having with our clients with MNCs and we have been hopeful of some conversions here. What has been the progress in these discussions and also, if you could highlight what has been the impact of the lockdown on our mid-sized and domestic clients, which form roughly about half of our revenue here?

Kedar Vaze: The first quarter results were testimony that in the months of April, 2020, many of our smaller customers, our own operations were not fully functional. By June end, almost all customers have restarted. I would say, as we speak, the traction on the ground is that more and more customers are coming online and demand is starting to come back. It's uncertain time. So I don't want to commit on anything that happens going forward. But the current traction is there. Every week, things are slightly better than the previous week. I wouldn't say we are completely normal but things are improving.

On the customer mix, the larger customer, the first question was on terms of the new products in the larger clients, MNCs and global accounts. So, some of those activities are also being affected by the lockdown because they are unable to conduct consumer tests, so they haven't taken up new products as part of their response to lockdown. They have reduced SKUs. They are focused on managing current supply chain. So many of the large projects, which are multi-quarter, multi-year, kind of projects, work on that has been stalled in the first quarter. By and large, these projects have restarted and we are hopeful that in third quarter, people will be back in the normal new product launches and so on and so forth. The additional thing is that whilst the normal products, new launches have stalled, there has been a few of new products catering to the new COVID related trend and we have a large number of new wins across these categories. The pipeline of new wins is quite healthy and it continues in this quarter as well.

Ankit Pande: So if I were to interpret it right. During the next quarter or two, maybe it will be a couple of quarters still to get back to the top line that we used to record before. But should we expect a good growth going forward? And I mean, I put this in context with the last 4 years or so, we have shown a deceleration in our top line. So what can we expect as investors, over a 3 year time horizon, as far as our top line growth is concerned?

Kedar Vaze: We are looking at a 11-month year in a way and we're trying to see if we can do atleast the turnover of last year and exceed that. Bottom line, because we had exceptional cost last year, will be quite different. But on the revenue and margin side, we can reach last year and we are on track for that. In terms of the growth thereafter, this roughly translates to 8% growth, if you convert the 11 months to 12 months of execution. And we anticipate that the year after that onwards, we can factor roughly 12% growth on the current business. We will get additional growth from the CFF after the integration in the next quarter of this year. So we will present the CFF outlook after the integration and the first quarter of consolidation. But the non CFF business, we can factor in 12% CAGR growth, the year after this year, in FY21-22 onwards.

Moderator: We have next question from the line of Rohit Nagraj from Sunidhi Securities.

Rohit Nagraj: You mentioned that in terms of CAPEX, we had done largely CAPEX across the board, and we may not be spending for the next couple of years. So given that the current capacities we have, here as well as CFF, what is the maximum revenue potential that we can have on based on maybe last year's prices?

Kedar Vaze: So if I look at the potential revenue, we have roughly 20% of our business, which is in terms of ingredient capacity, where we are at about 80% utilization. So there is limited scope for revenue increase there. And the other 80% of our business, which is the Rs. 1,000 crore business, we really have, basically, capacity to double up or even triple that business without any large CAPEX in the markets that we are currently operating. So the CAPEX would be necessary if our revenue growth were in new markets or in additional geographies where we don't have a plant. But in the current business context where we are operating in the current markets, we have capacity enough for doubling our revenue over the next 3- 4 years without any real production CAPEX. So we will have CAPEX largely in the nature of setting up R&D centers and things like that, the production CAPEX is by and large in place.

Rohit Nagraj: And the second question pertains to CFF. So if you've given the details about first half performance. So if we just calculate the consolidated gross margins, it comes at around 37% vis-à-vis are 44%. So is there any scope for further improvement and is there any risk on the contract manufacturing side of the CFF business and lastly, the cost of debt for the CFF acquisition?

Kedar Vaze: On the CFF, we have basically two parts of the business. We have the core business, which is the fragrance manufacturing and development business like ours. And we have a manufacturing contract business, which is roughly half of the revenue. So the gross margin in total business is roughly 32%. But when you track to the core business, we have a gross margin in excess of 50%. And that's really the business that is growing. The manufacturing contract business is basically steady state that covers part of our overheads and operating costs.

So that is helpful to manage the fixed cost to a very low level and/or cover the fixed cost to almost 100%. So that's the business model at CFF. We have one or two large manufacturing contracts which cover for the manufacturing overheads. And then our business of 16.5 million last year was the core business which had excess of 50% of gross margin.

Rohit Nagraj: Another question on that in terms of the contract manufacturing business, is there any risk and what would be the cost of debt for this Rs. 140 crore that we have further invested?

Kedar Vaze: So the Rs. 140-odd crore, a bit little less than Rs. 140 crore but the debt that is raised for this acquisition is in euro terms. It's the borrowing rate close to around 2% at this point. So I don't have exact number with me. It is linked to the Euribor floating rate but it should be around the 2% interest rate.

Moderator: We have a question from the line of Anuj Sharma from M3 Investments.

Anuj Sharma: My question was on the Flavor segment. Now internationally, when we see global large players, the discussion between Fragrances and Flavors is marginal. In our case, it is significant. My question is, Rs. 120 crore of flavor business given our age and experience is a very marginal number. So are there any structural challenges in our businesses and being a small player, we had multiple opportunity to scale up, so some thoughts into this?

Kedar Vaze: So while Rs. 100 crore is quite a small number in relation to the Rs. 1,000 crore, I believe, at the Rs. 100 crore Flavor business, we will be in the top 5 or 6 flavor companies in the country. So it's not insignificant. It's a market share. It's not a dominant market share because we have started pretty late. We have come into the Flavor business only in the last 20 years as against almost 100 years in the fragrances. There is obviously catching-up time. I also see that the business of flavors and fragrances is of one nature, where it's almost 60%-70% of raw material,are same , same kind of product development, aroma and when we say flavour in food, much of the flavor is smell. When you eat or taste an apple, the apple texture and taste is only 3 or 4 types of taste, like salty, bitter and so on and so forth, maybe 5 types or even 6 types. There is various number but it's a very small number of basic senses. And the majority difference between one type of fruit and another type of fruit or in other food is in the aroma and in the smell. So both flavor and fragrances are quite an allied business. It's a complete business. So in that sense, we think it's very much strategic and it continues to grow. And when we started flavors in '90s, prior to the '90s,the globalization of flavor market was even very low, kind of, I would say, margin or cost per kilo basis. So it was far more attractive for us to continue to grow in the fragrance business. But post 1995-96, the global flavors have started coming to the Indian market. And the flavor market, what I would say, is quality-driven rather than just price-driven. So in 1999, we started sale of our flavors. So we are basically 20-year-old as against 100-year-old for many of our competitors in Fragrance business.

Anuj Sharma: And the second and last question, if I were to ask, , what is the key challenge? Is it that we don't have the products, or we don't have the customer access or could we just hire a prominent flavourist.

Kedar Vaze: The Fragrance and Flavor business is very similar. We are a very sticky business. So Coca-Cola flavor is the same flavor for 120 years. There is no change whatsoever. So if you were the one who introduced the flavor, we would continue to grow with them as next 100 years. So the fact that we are in this business only for 15-20 years, we are building a set of brands and the kind of loyal annuity, kind of, every-year-repeat business. And it's not that this business or this industry is really about taking existing business market share, it's about building market share with new businesses. So it is a matter of time to build the market share. And to give you a perspective, our Flavor business was Rs. 1 crore in 1999. In 20 years, we have multiplied it by 100X.

Moderator: We have next question from the line of Dhavan Shah from ICICI Securities.

Dhavan Shah: So my question pertains to the working capital side and if I look at the working capital cycle which is somewhere around 45% odd of sales. So is there any scope of improvement over there? And if yes, then where can we see a reduction going forward and, what kind of, is our envisage in terms of the overall cash conversion cycle for the next 2 to 3 years?

Kedar Vaze: So we are, if I don't count this quarter, given the sales numbers are quite different and not normal. So if you look at March ending as a full year basis, we ended with a working capital of around Rs. 500 crore and 138 days to sale. These 138 days effectively for incremental growth, we will need somewhere around 90 to 100 days of working capital in terms of inventory. And this 138 will progressively keep coming down approximately 8 to 10 days per year as the sales, so every incremental sale; we don't need 138 days of working capital. We will be depending on the business, anywhere between 60 and 100 days of additional working capital. So 100 days on a new incremental business is what we need as a working capital.

Dhavan Shah: So going forward, this 138-odd days can reach to around 100 days in next 2 to 3 years?

Kedar Vaze: It will take longer than next 2 to 3 years. It will be roughly 7- 8 days of reduction per year or probably take 5-6 years to reach the 100 days' level.

Dhavan Shah: And what's our debt repayment program?

Kedar Vaze: So we are now at approximately Rs. 380 crore of debt and we will repay Rs. 100 crore odd of debt in this year.

Dhavan Shah: And the CAPEX will not be significant, it will be a marginal CAPEX per year, going forward, right?

Kedar Vaze: Yes.

Dhavan Shah: Around Rs. 20-30 crore odd?

Kedar Vaze: Rs. 15-20 crore is the expected CAPEX.

Moderator: We have next question from the line of Payal Lad from Progressive Shares.

Payal Lad: I need few clarifications or explanations in terms of two questions. Number one being, there is a mention in the Annual Report that the company has earned a pretty good response in the domestic and the international front in terms of Ayurvedic products. So if you could help us quantify in terms of what possibly could be the opportunity that the company foresees? Who are the biggies or the large MNCs and the expected launch for the immunity booster?

Kedar Vaze: So I think we had an investment in Ayurvedic extract as part of our next stage evolution. The industry is also moving in direction of Fragrance and Flavor+products i.e.value-added fragrances and value-added flavors. We had the extraction business as part of our flavors acquisition and we invested that into a plant in Vapi last year from a longer-term perspective. Given the current COVID situation, we have brought those Ayurvedic extracts and immunity products into the fast forward and into kind of a highlight. To that extent, we have very good response from our clients. Our business is starting to grow and ramp up. But I would just caution that we are starting on a very small base of Rs. 3 to 5 crore, so it's a completely new side of the business but it's growing very fast.

On your question on immunity booster level; we have immunity boosting fflavors, which have been tested against, and also known to improve immunity. Plus, we are specifically launching the immunity boosters for the online retail market-based on our Ayurvedic extracts. This will follow the Ayush guidelines formulation, so it's a formulation guideline which we have taken from the Department of Ayush, Government of India. And we will be launching that shortly.

Payal Lad: And secondly, in the last con-call, there was a mention that due to the lockdown imposition, the company had reported a revenue impact, roughly about Rs. 300 million-odd, out of which Rs. 20 to 30 million you lost and the balance were deferred. So are there any deferments from the last quarter that have been accounted for the current one?

Kedar Vaze: So in terms of deferral, it's a continuum. So let's say perfume was being purchased every month. So their orders of March went in April, April will go in May, May will go in June. So there is kind of a deferral but they will pick up the material in the next quarter or next month.

Payal Lad: If you could quantify on those figures, is that possible?

Kedar Vaze: So the entire Rs. 30 crore odd, which was pending, we have already sold roughly Rs. 20 crore out of that Rs. 30 crore. And by end of the year, we would have sold all of that. So only the clients or customers where they have not resumed their operations, those quantities are still lying with us. For the rest, the orders have been processed.

Moderator: We have next question from the line of Nikhil Upadhyay from Securities Investment Management.