July 06, 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 Q4 & FY 20 Earnings conference call for investors and analysts organized by the Company on Wednesday, May 27, 2020 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**

Deepti Chandratre
Company Secretary & Compliance Officer

Encl: As Above

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S.H. Kelkar & Co Ltd

Q4 & FY20 Earnings Conference Call
May 27, 2020

Moderator: Ladies and gentlemen, good day and welcome to SH Kelkar and Company Limited's Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note 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 Q4 and 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 – VP and Group CFO of the Company.

We would like to 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 Thank you Anoop. Good morning everyone and thank you for joining us on our Earnings Conference Call to discuss the Operating and Financial Results for the fourth quarter and full year ended March 31, 2020.

I will be covering the quarterly business highlights and financial performance for the quarter, post which we will open the forum for your questions and suggestions.

We began the fourth quarter on an encouraging note witnessing increased demand and improved traction in all our business segments, in terms of inquiries, leads especially from the mid and large sized FMCG companies, which led to a solid pickup in the business momentum in the month of January and February. However, a countrywide lockdown and restrictions in the last 10 days of March, changed our operating trajectory and moderated sales during the quarter.

On the consolidated basis, our revenues from operations stood steady at Rs. 269.8 crore in Q4FY20 and in FY20 it was Rs. 1,105 crore, higher by 6% year-on-year.

The company saw several operational challenges due to the COVID-19 led lockdown in March and April. While we did not witness any significant impact on the existing orders backlog from the customers, our execution during the period was severely impacted due to plant closures and logistic issues. As per our assessment, the revenue impact owing to the lockdown in the last 10 days of March roughly translates to around Rs. 30 crore. Adjusted for the same, we believe we would have largely been on track to deliver our performance as per our internal expectations for the quarter.

Despite the challenging environment, gross margins during the quarter improved to around 44% and for the full year to 43%. While the reported PAT during the quarter stood at Rs. 12 crore, adjusted for the impact of COVID-19 on our revenue and EBITDA, we would have registered an estimated PAT of roughly Rs. 22 crore as per our assessment. Cash profit for the year stood strong at Rs. 122.7 crore and would have been roughly Rs. 10 crore higher without the COVID-19 disruption.

In the fragrance division, we are currently witnessing good demand and healthy buildup of order pipeline over category such as household products, detergents, sanitizers, soaps and personal wash. These are higher than the average of the previous year. Our latest category addition, industrial fragrance is also tracking a healthy progress. We reported increased contributions from industrial fragrance segment in Q4 and FY20. The new products that we have introduced in the market have been well received and we expect to deliver improving contributions from this division in the years to come.

Our flavours business also reported steady performance during Q4 & FY20 after taking into account impact of the COVID-19 on this segment.

I would also like to update you on the encouraging performance reported by CFF, our Italian joint venture, despite a challenging operating environment in Europe. During the January-March quarter, revenues from the core Fragrance segment improved by 13.5% year-on-year. Gross margins in the segment stood strong at 54.7%, higher by 580 bps year-on-year driven by lower raw material prices. I am also happy to share that despite the lockdown in Italy, CFF witnessed steady sales in the month of April and also in March 2020. Going forward, we expect to deliver a healthy performance from CFF, in the quarters ahead.

Let me now discuss the COVID-19 pandemic and its impact on our company's operations, From January 2020, the outbreak of this pandemic has been disrupting global economies and markets. As discussed in our previous earnings call, we did not see any major impact on our raw material basket owing to supply chains in China. However, the nationwide lockdown in domestic markets from March 22, 2020to May 17, 2020 significantly affected our business activities. Our priority, during this challenging operating environment was to maintain and secure our operations, while also ensuring safety and well-being of our employees and business partners. Further, we were focused on serving all our customers, especially since we form an important part of the FMCG supply chain.

On the operational front, we took all recommended precautionary measures across our business operations and temporarily closed operations at our corporate office in Mumbai and implemented work-from-home. In line with the government directives, we had also temporarily suspended manufacturing operations across all our manufacturing facilities in India, at Vashivali, Mulund, Vapi and Mahad for roughly 35 odd days. While the Company faced supply-chain disruption and labor management issues during the lockdown in March and April, the situation on the ground is certainly improving now. Pursuant to requisite government approvals, we have resumed operations at all our facilities from April 27, 2020 onwards. While the units are operating at low utilization level, we are undertaking all precautionary measures and ensuring highest safety standards across all our manufacturing sites.

As I mentioned earlier, prior to the lockdown, we were seeing increased business wins and engagement with existing and new FMCG customers. I am happy to share that our contribution from business wins both from existing and new customers, stood at around 5% during FY20. While it may seem optically low to you, we are enthused by such figures as it provides a multiyear growth visibility to our business. Typically, such business wins from existing and new customers account for a small revenue contribution in the first year of operations. As our customers' end product matures in the market, the revenue contribution for such products keep increasing. This is generally over a period of 2-3 years, before the business from that product stabilizes. So, while we are seeing a healthy uptick in business wins, the positive impact on our business performance is expected on a longer-term basis.

Furthermore, we are also encouraged that our company has been winning 1 in 4 to 5 client briefs over the years and as the macro situation normalizes, we anticipate this trend to continue going forward. So fundamentally, the Company's operations continue to be strong and stable.

We are also seeing increased contribution from our mid and large sized FMCG customer segments. The contribution from smaller customers, post GST and demonetization, has reduced over the years and currently contributes less than 10% to our total revenues. I would however like to state here, that in SHK's core DNA, we work with all customers small and big. While the small customers have been impacted over the years owing to various issues, we do anticipate most of them coming back in some form and modifying their product mix over the next 3 to 5 years. In addition, we are also seeing the growing influence of e-commerce platforms and how they have been challenging the traditional brick-and-mortar stores. These growing e-commerce platforms are being increasingly and successfully leveraged via smaller consumer segment entrepreneurs to provide customized products across the domestic market. We believe, this presents another set of opportunities for us to build engagements with these smaller entrepreneurs to service their customized product needs. On the financial position, as an organization, we are realizing our cost optimization strategies and are deploying working capital measures to conserve cash flows and ensure steady profitability during this extraordinary situation. I am happy to share that we reported healthy cash flows of operations during the year to Rs. 205 crore owing to improvements in total working capital cycle. This enabled us to reduce our Net Debt position as on March 31, 2020 to Rs. 299 crore as compared to 400 crore as on September 30, 2019. This notable reduction in debt was achieved after accomplishing a buyback and the interim dividend. I would also like to share here that our net debt position as on May 22, 2020 is below March 31, 2020 level which further strengthens our company as we step into the COVID-19 situation. Furthermore, we hold negligible term loans and most of the Company's debt is towards working capital.

Even, for FY2021, we do not foresee major CAPEX outflow except for the CFF acquisition. We expect maintenance CAPEX during the year to be less than Rs. 20 crore and anticipate this outlay to remain amidst this range on sustainable basis going forward. On the whole, we have a strong balance sheet and a fairly robust liquidity and cash flow position that will help us tide over these disorderly times. Our long-term focus remains towards marking a sustainable improvement in our return ratios, going forward.

As we look ahead the Fragrance and Flavour industry remains a critical part of the FMCG industry. We are confident of the industry's resilience and its growth prospects and it would be our endeavour to sustainably outperform the industry growth on the back of our leadership position, comprehensive product portfolio, diverse customer base and repeat business wins in existing and new customers.

We are presenting ourselves as a reliable partner to all customers and continue to work with them to ensure smooth deliveries and supplies, even in this challenging operating environment. We are further encouraged that we hold adequate inventories to smoothly service customer requirements in the months ahead. While there is limited visibility on when the situation will normalize, we remain confident of our growth prospects and believe that in the normalized operating environment, we should be able to deliver healthy performance as things improve.

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. Ladies and gentlemen, we will start with the question and answer session. The first question is from the line of Dhruv Bhimrajka from Bharti AXA Life

Dhruv Bhimrajka: Can you please explain in detail how the raw material sourcing takes place for your company? How does the raw material procurement work? What are your main raw materials and which are the countries that you normally procure from?

Kedar Vaze: We buy our raw material from over 200 different vendors across 60 different countries. 50% of our raw material are sourced domestically, 50% is imported. Our feed stocks are varied from petroleum chemicals to turpentine, which is actually a derivative of wood or paper industry and then there is Citrus Terpene which comes from orange juice as a byproduct. So, our feed stocks are largely sourced from different parts of the world. As 25% of our volumes, 40% CFR value is specifically herbs, spices and flowers, fruits extracts which are made across the world.

Dhruv Bhimrajka: Can you tell me what is the percentage share of organized and unorganized market in the Flavour and Fragrance chemical industry?

Kedar Vaze: I do not have the latest numbers but 2 years ago, our estimate of unorganized market is roughly 35% in Flavours & 25% in Fragrance

Dhruv Bhimrajka: And what would be your market share in the total industry under organized market?

Kedar Vaze: As a percentage of the total industry under the organized market, we would be around 13% of the F&F market share and around 20% market share in the Fragrance segment.

Moderator: The next question is from the line of S.N. Rajan, an Individual Investor.

S.N. Rajan: I just have a couple of questions; one: can you tell me about your operations in China and the acquisition which you did last year? Secondly, which segment do you see maximum growth going forward, for example, hand sanitizer is something which is booming, so is there a chance in the fragrance segment or do you see any new opportunities due to COVID-19 in terms of new segments being created? Thirdly, is in terms of your supplies to FMCG companies like Reckitt or HUL etc. are we in this segment, for example, Love & Care of Hindustan Lever, which is the latest detergent, are we in that kind of a segment at all?

Kedar Vaze: So, I will answer the second question first; we are continuously working with the global MNCs on various products. Although our market share in their portfolio is quite small, we are the approved vendors for many of them. The COVID-19 pandemic has also given us an unique opportunity since many of the global MNCs are now looking for more local or reliable supplies in addition to their global vendors. To answer your other question, we do not see any new segments as such coming or emerging due to COVID-19. But surely there are a whole host of new product launches between the existing personal wash, sanitizers and beauty care products. So, there are definitely large number of products and greater sales. If you look at the general trend of what has been in the Italian markets though our CFF subsidiary, Italy was earlier in the COVID-19 transition or COVID-19 pandemic, we see that the typical products like sanitizers, cleaning products and multipurpose cleaners, all of these products have grown dramatically, almost a jump of 50% in March and beginning of April. It will end up with a 10% to 12% increase in these product ranges for the full-year. We see a similar thing happening in the Indian context, our market share in Fragrances on the personal wash, fabric detergent and cleaning products in general will go up as a percentage of our total sales and also as a market share of the total business. Some of the higher premium products in terms of fine fragrancewill be muted for the time being. As and when the general markets open up all over the country and in the different parts of the world this business will resume to normal levels. So, on the overall basis I feel there would be a 10% to 12% increase in the personal wash, sanitizers, cleaning products in general and the remaining sectors will remain at the same levels as last year.

S.N. Rajan: And what about China?

Kedar Vaze: In China, we have a factory, which has been operating throughout this pandemic with minimal disruption. We don't see anything specifically negative or positive out of China. In our view, there might be some disturbances or some additional costs based on duties or logistics from China. So, we are taking adequate stocks in domestic warehouses for products coming out of China for us in the near future.

Moderator: The next question is from the line of V. P. Rajesh from Banyan Capital.

V.P. Rajesh: My first question was regarding our business that is coming out of India. So, what percentage of the total revenue is from the clients based in India?

Kedar Vaze: Roughly 60%of our total revenue is based on clients' consumption in India. We also have revenues overseas for clients, who are based in India but for consumption of clients in India is roughly 60%of our business.

V.P. Rajesh: And then out of that 60% , how much is coming from MNCs here versus the domestic FMCG companies or from the smaller FMCG companies that you alluded to earlier?

Kedar Vaze: Our market share in the global MNCs is very small, it will be a small contribution of 1%-2% of our total sales.

V.P. Rajesh: So. 1% or 2% of our total sale of Rs. 1105 crore is from the MNCs based in India, is it?

Kedar Vaze: That's correct.

V.P. Rajesh: And what percentage of our revenue would be from these smaller FMCG companies, however you may define their meaning perhaps they are less than Rs. 100 crore or Rs. 200 crore of revenues, so if you can just give some more colour on that side?

Kedar Vaze: I will give you the broad picture, as we are very strong in the middle segment, we have very limited market share owing to global vendor policies with the global MNC or FMCG players like HUL or others that you mentioned. We are very strong amongst the domestic FMCG companies across the board which contributes roughly 40% of our sales in the Fragrance segment and maybe around 30% to 40% of our sales in the Flavor side as well. So we are very strong in the mid-sized or the domestic FMCG players such as Godrej, Emami, Marico, Dabur and so on and so forth, all these well-known FMCG players within the country are large clients for us and we continue to support their growth and their business over the years. We also have a large diverse clientele of roughly 2000 plus clients across the country and across various geographies; we operate in 60 countries where we are suppliers to the mid-sized and smaller the FMCG companies for various products.

V.P. Rajesh: So, in India, if you were to just give a little bit more color, what is the percentage of our revenues coming from the smaller FMCG companies and how do you define the small in the way you segment the market?

Kedar Vaze: It's difficult to define that as it's a continous process, there is no specific slab or brand. We typically look at our potential sales of roughly Rs. 10 to Rs. 20 lakhs per variant on an annualized basis as the starting point. We also depend on which segment it is to a certain extent, so there are some segments which are smaller, some segments which are bigger. So, in the personal wash soap we would look at a slightly higher number as large clients and small clients. So, category by category it differs, but for an average, customers buying Fragrance or Flavour below Rs. 10 lakh, we define as the small customers, anywhere between 10 lakh to around Rs. 1 crore are the big sized customers and companies which are buying more than Rs. 1 crore per annum would typically be the large brand companies.

V.P. Rajesh: What would be the percentage revenue or contribution from your top 10 customers, out of your revenue of Rs. 1,105 crore?

Kedar Vaze: Roughly 20% or 25% of our total revenue. That would be widely distributed amongst the diversified portfolio of customers and products.

V.P. Rajesh: Just one more question on the customer side; what has been the challenge in penetrating in the domestic MNCs for example for HUL, for Nestle, etc?

Kedar Vaze: No challenge of sorts, we are continuously working with them on their briefs and potential business; it's a matter of time before we get business from them as well.

V.P. Rajesh: For the CFF, you are planning to buyback the remaining portion, so what's the plan on that side?

Kedar Vaze: At the moment, if you see, CFF results, even through the COVID-19 scenario, have been good. So, they are a strong operating company and we are very inclined to complete the remaining balance 49% acquisition as soon as possible. With the COVID-19 challenges, I think we will work out the timelines as to how to execute the transactions and put in the paperwork. But we are keen and as indicated before the second half of this financial year, we would be closing the transaction. Due to the COVID-19 situation during February 2020 in Italy, we ended up postponing that to a later date. We are looking forward to go ahead and integrate their business with our business as soon as possible. In addition, it gives us a BCP, business risk management tool for many of our customers in the Middle East and Africa. We could also supply from Italy in case of some product stoppage in India as we witnessed during April 2020. So, we are keen to have a site outside India to be able to be cater to any emergency supply situation.

V.P. Rajesh: And just couple of numbers related questions; your other income dropped quite dramatically both for Q4 & FY20. So, if you can just provide some commentary around that?

Shrikant Mate: Last year, there were write-backs of expense provisions which were no longer required that is why last year number was higher. As we go along, we now continue to have normal composition, which is the export incentive, some scrap revenue and the FOREX gain, etc.

V.P. Rajesh: And last year you've written off Rs.23 crore of intangibles, is there an equivalent number this year corresponding to that and was it in the depreciation amortization line last year?

Shrikant Mate: So, this year also there is approximately the same value of amortization. This is the R&D which is capitalized and as it is written off following a systematic review of those projects resulting into revenues. These are categorized into other expenses following the accounting regulations.

Moderator: We move to the next question that is from the line of Manish Gupta from Solidarity Investment.

Manish Gupta: I have two questions; the first one is can you describe your competitive edge and what differentiates different players from each other in this industry? And the second one is can you explain the strategic rationale of the overseas acquisitions that you have done?

Kedar Vaze: Answering your first question; we have been in this business for well over 90 years. I'm personally in the same family as the founding family and we have been technically the people who have been building the Fragrances and Flavours for well over 90 years. This business of Fragrance and Flavours like many other businesses which are related to people's consumption follows trends, liking and consumer liking and preferences. So the longer you are in the business, the more data you have, the more experience you have, the more prototypes you have developed, so you have a better understanding of the consumer tastes and consumer trends and you are better placed to make the products for the future. So, this is why we have been around, we have been working in these markets over long periods of time; we have a strong library of product development. We have continual R&D spend of well over 3% for many years in a row. We have the basis to compete with our knowledge, with our R&D which has been consistent. So, there is R&D where you need to spend money and there is R&D where you need to spend the time. So this peculiar characteristic of our industry where as you have data over more periods of time, more prototypes and more trends you ought to have a better selection of products and trends for the future. So, this is our strength, understanding of the consumers. Therefore, we are also one of the key Fragrance companies. The same principle applies to our Flavors division which works with small and large customers alike. As the HSBC tag line states "The world's local bank", similarly we are, "The local developer of Fragrances and Flavours". We understand local consumption, we understand local consumer taste better than the large global companies. From an operational, quality control & service point of view, we have a global size and scale. So, we have combined the best of global service standards with local consumer understandings. This is our USP. In your discussion on the global acquisition, we have done 2-3 global acquisitions. The first acquisition was 10-12 years ago when we acquired a company called PFW, which was manufacturer of aroma ingredients and they had a strong pipeline of R&D for new molecules, which is the starting science behind the fragrance and flavours. And almost 1.5 years back, we set up a plant in Mahad. We have acquired a company in China called Anhui, which is also in the similar manufacturing base and closed the Netherlands operating base. So these product lines were basically manufactured in Europe but sold on a global basis including in India and China and we thought it is beneficial to operate the manufacturing in area of lower cost than continue to operate in the Netherlands. So that acquisition was largely in terms of our global ingredient supply chain and the research around the basic ingredients. Both the Netherlands acquisition and our recent acquisition last year in China were to support and strengthen our supply chain on the raw material position; we have now acquired CFF in Italy. So, if you look at our fragrance or flavour growth and investment method, we normally look at a market, we have R&D exposure, we conduct market studies on the market and then we invest to manufacture and produce in those markets. So, we have done that for Southeast Asia, Middle East and we have been operating in these markets for well over 40 years and recently after that when we were moving the Netherlands factory out, we already have R&D people and management team in Netherlands. Plus, I believe that overall, in the longer run European business and particularly south of Europe businesses are where the new trends in the global fragrance markets are beginning. Hence, we are now well placed to operate in the South of Europe with the Italian acquisition and keep abreast of what is the global trend in fragrance in particular. So, it helps us to sell and compete in the European markets and to keep updated on the latest trends in the global fragrance industry.

Moderator: The next question is from the line of Saravanan Viswanathan from Unifi Capital.

S. Viswanathan: As you had mentioned that the investment required in fixed assets this year would be to the tune of Rs. 21 crore, so I wanted to understand what is the current level of capacity utilization? If we were to see your last 5 years, fixed assets additions almost doubled but in revenue terms and even operating profit terms, it has more behaved like sideward. So, can you just take us through the current level of capacity utilization and how long before that we need to create more capacity?

Kedar Vaze: In terms of capacity with our last investments in the Netherlands and in the Mahad factory along with relocating the Netherlands operations, we have primarily completed our cycle of investments for the phase of growth. We don't foresee any real large capex required for the continuation of our current business. We will look at small capex additions like capacity enhancement if required. But by and large capacities are in place; so across all of the business segments, our current capacity is around the 50% to 60% level on what is the current demand. So, we have enough headroom across the divisions and factories to continue to increase our revenue without any large capex requirements.

S. Viswanathan: The CFF Italian capacities and the Indian capacities are they for similar products or they are for different products?

Kedar Vaze: No, CFF capacity is in the fragrance formulations and that is specific to the European market. We are not depending on that capacity for Asia, Africa, Southeast Asia markets. We have two similar plants in India catering to these demands in Middle East, Africa, Indian subcontinent and Southeast Asia. So CFF is there to cover the European market as a geography. We have the Chinese operations as well so right now, our span of operations is between kind of Middle East, Indian subcontinent and Southeast Asia that is our established market where we have market presence and we are continuing for last 25+ years. Europe and China are the additional markets where we will start to develop semi-marketing and sales.

S. Viswanathan: So even from a European market perspective, the CFF Italian capacities are sufficient for few more years?

Kedar Vaze: Yes, we have last year invested in an additional production capacity in CFF as well as in anticipation of the integration. So, we have enough capacity. All the plants in terms of business segments are not exceeding 55%-60% of their capacity that is maximum. Therefore, for the Fragrance and Flavor domestic market, we are at a lower utilization level because we have invested heavily in large capacity earlier in the cycle.

S. Viswanathan: R&D expenditure that you are hinting is that all charged in the P&L account or some of it is capitalized?

Kedar Vaze: Since 2015 in the new accounting standard, we have been capitalizing some of the longer-term projects and charging off the immediate projects to expenses. As we speak, it's a pretty much steady-state so every year by and large it is the same, so if I look at my cash expenses or I look at my expenses in the P&L, they are more or less the same because there is a net effect of some being capitalized and some being written off from that earlier year, which did not materialize or were kind of amortized, so net result of the two is pretty neutral. So, there are no additional things being charged off to the balance sheet on a year-on-year basis.

S. Viswanathan: What would be our financial outgo if we are to buy the 49% stake or the remaining stake in CFF Italy?

Kedar Vaze: We are negotiating with them but as of the last discussion, we had roughly €16 million of outlay planned.

Moderator: The next question is from the line of Alpesh Thakkar from Motilal Oswal Financials.

Alpesh Thakkar: My first question is on the CFF, so in terms of revenue and EBITDA margin how was the performance for FY20 and how is the cross-selling opportunity doing so far, as CFF is good at fine fragrances and fabric care, so are there any opportunities that we are looking at to cross-sell in any other geographies? And second question would be on a steady-state basis, what could be the optimal asset turn which could be expected from a business like S.H. Kelkar?

Shrikant Mate: So, CFF in spite of this COVID-19 pandemic in Italy, had a fairly encouraging performance, in fact they posted a revenue growth. Their business is pretty much similar to S.H. Kelkar's Fragrance business, clocking 18%-20% EBITDA margin. Coming back to cross-selling opportunities I would request Kedar to take that in terms of specific clients or specific timelines but sure there are synergies. Coming to the asset turns, we are done with all our CAPEX. In last couple of years we also had to invest fair amount to relocate our plant from Netherlands, so I would assume that, with CAPEX done and we looking to drive growth going forward, we expect our asset turn to reach close to 2 but it will be over next couple of years.

Alpesh Thakkar: Just an additional question, what was the revenue for CFF in FY20?

Shrikant Mate: They follow a calendar year. Q1CY2020, it was roughly €8.5 million.

Kedar Vaze: Taking the question on the cross-selling I had already alluded to that earlier. We have various products, some products which we have ready from fabric technologies and air care technologies that we are cross-selling into Asia, so yes there are opportunities for cross-selling. At this time, we are in the midst of the COVID-19 crisis and we are actually exploring cross operations opportunities as well where certain customers of ours could be serviced out of Italy. As you all know that Italy had a very bad impact of the pandemic but it is also ahead of the curve and they have started seeing steep declines in the number of cases and so on and so forth and returning to more normal operations and we could use the Italian plant to off-set some of our production challenges at this time. So right now, we are not looking to maximize on new product sales. There is a huge potential of cross-selling products in both the countries, both the regions. But at this moment, we are also excited about the opportunities on the operational addition to our portfolio that we have an alternative production site to service particularly in the Middle East and Africa, where the logistic time is about the same as from India.

Alpesh Thakkar: On the growth guidance for FY21 for both the Fragrances and Flavours business and on the raw material price volatility side given that the whole world is impacted by this pandemic, so do you see again some kind of raw material pricing which could impact the gross margins going ahead because in the last couple of quarters it has started improving, so just wanted to know on that front.

Kedar Vaze: Historically, we had around 45% gross margin, wherein we had lost some of that in the hyperinflation post the force majeure and closing of plants in China and so on and so forth in 2018. I believe that we are now on the other side of the pendulum and things in terms of supply will get easy and we will end up with normal buying pattern, normal prices in the rest of the year and going forward.

Alpesh Thakkar: And on the growth side, for both the businesses on a company level basis, any rough ballpark figure that you have for internally for the growth guidance for the year.

Kedar Vaze: For this year, the opportunities are high. I wouldn't want to commit what will be the eventual growth rate because we still have a very uncertain climate over the production, over how the things will pan out in the next 2-3 months. Once we have a normal operations, maybe it will be better time togive some guidance on the demand and our run rate going forward. I would not want to commit any growth rate today in this market and in this scenario. We have strong demand, so there is no problem on the demand side as our customers - FMCG companies - are operating, we have good orders coming in. It is a question of how we are able to service the order with the people movement and logistics difficulties at the moment. I would just add that within the country, we are amongst one of the few people who have high automation level in manufacturing processes, particularly in the Fragrance side and this would enable us to operate at a much faster speed once things resume. So, I would expect post the opening of the markets, there would be peak demand. Some of the smaller players and smaller customers who have not been buying would start to buy and we have enough and more capacities within our plants to allow us to expand our production capability to address this peaked surge. So, I believe that we are well-placed, both, from material capacity of production and financial strength of the Company, to take any opportunities that come our way. We are well placed to take the opportunities as they come.

Moderator: The next question is from the line of Chirag Dagli from HDFC Mutual Fund.

Chirag Dagli: Can you comment on the FY20 volume value split for overall sales and also in general the pricing trend for both your ingredient business and the formulation business?

Kedar Vaze: I will answer the second question first; the general trend for the ingredient pricing has come down, the corresponding gross margin of fragrances has gone up. So, net to net for us we will be still doing 43%-44% gross margin for the coming years. There is no real impact of the entire gross margin change. We would see some impact on the global sales of the certain products with the demand of fine fragrances being less, so we would have some impact of that. In terms of last year volume and value, we can send it out to you.

Chirag Dagli: There was a view that post shifting the Netherlands facility to India there will be OPEX saving. There was a number you had indicated some Rs.10 or Rs.12 crore, how much of that has been realized or is in the base of FY20?

Kedar Vaze: It has been realized over the last two years. we have already brought down on operating costs and employee cost to the corresponding levels, roughly Rs. 12 crore odd reduction from the levels of 2 or 3 years ago, when we were operating our Netherlands plant. You we can already see some impact of that through the employee cost reduction and you will keep seeing that in the way forward. We do not have specific working on the Netherlands movement to Mahad. We can make that and send it to you. But just to say that we have completed our objectives in line in budget and we have been able to produce with the full capacity of the plant in the past couple of quarters and the costs are very much in line with what we have planned. So, I think we would have realized the entire 2 million euro saving across this plant shifting. But it would not hit you in the 1st year because the plant closure was happening in phases and the plant restart was happening in phases. But if you look at a 2017 number to a 2021 number, you will see that operating difference of Euro 2 mn savings.

Chirag Dagli: So, in FY20 full potential of the Rs. 12 crore has not been realized is what you are indicating?

Kedar Vaze: No, it has been realized; it is not year-on-year realization. So, on 2018 and 2019 we have realized something, 2020 we have realized something. The entire 2 million euro is not seen in FY20 alone.

Chirag Dagli: So, some bit of that will still spillover in FY20?

Kedar Vaze: Yes some bit of that has come in 2020, some bit of that has come in 2019 and some bit of that will come in 2021 because we have been phasing out and closing, so it's not that it has stopped in the Netherlands on one day and started in Mahad on second day. So there has been phased closure, there has been a phased manufacturing increase, so that entire 2 million euro is spread over these three financial years in terms of the savings.

Chirag Dagli: Can you quantify the R&D spending full-year of FY20 and FY19?

Shrikant Mate: So, R&D spends, we spent roughly Rs.50-Rs. 55 crore this year versus last year it's more or less comparable but going forward this will stabilize.

Chirag Dagli: So, Rs.50-Rs.55 crore like you indicated that between amortization and capitalization broadly the cash flow element is also similar to the P&L.

Kedar Vaze: Yes, there is not really much difference if you look at capitalized or actual cash expense. It's around the Rs.55 crore level itself. We have further reduced our expenditure on basic research in the Netherlands in Q3FY19 alognwiththe closure of the full plant there. So that will bring down further the cost of R&D for this year. We have also planned projects, some of which are partly implemented, that will bring down the R&D cost further by Rs.5 to Rs.7 crore for this year. Given the current pandemic, we will not be funding many of our longer-term projects this year. We anticipate Rs.5 to Rs.10 crore additional reduction in the R&D expenditure in this year.

Chirag Dagli: And Kedar you indicated that the demand environment seems reasonable, while there may be some COVID-related supply issues. But when you think of the business do you think in past you have commented about Rs.100 crore kind of free cash flow from the business. That number is something that FY21 can reach?

Kedar Vaze: It is anybody's guess because major part of our cash flow comes from operations in India, so if we assume that we have a normal scenario of operations, demands and logistics, I think reaching Rs. 100 crore cash flow is quite within the budget which we have. But I wouldn't want to comment and speculate anything for this year till we have some level of normalcy.

Chirag Dagli: You said January and February were good months for you but March seemed to be having some impact.

Kedar Vaze: It was a strong quarter as every year; the last quarter is a strong quarter. We were seeing very good demand in January and February. We had more than Rs.35-Rs.40 crore of open orders at the time the lockdown was announced. So, we have lost—roughly an estimate of Rs.30 crore odd at the end of March and we would have closed the quarter at Rs.300 crore or Rs.303 crore odd revenue in Q4.

Chirag Dagli: We are already through 2 months in April and May, how have the past two months been?

Kedar Vaze: As I mentioned earlier, almost till the first part of April, 2020 till 23rd, we were closed after that almost all the plants were operating marginally. We started to operate some of the plants in end April, some of the plants in beginning of May. By 17th of May, 2020, we had started our plants all over in some level of operations which is 40%-50% in total. So, we are able to generate revenue only after the 14th of May and as we speak, we have covered roughly Rs. 50 crore of revenue for these 2 months but that's basically 15 days of operations in reality.

Chirag Dagli: Cumulatively, you are saying Rs.50 crore of revenue was generated.

Kedar Vaze: Yes, around Rs. 50 crore till May 22, 2020, so the last 3-4 days again there would have been some sales but till May 22, 2020, we have cumulative roughly Rs. 50 crore of sales which are basically almost like 15 days of production which is where we are right now. We have enough orders in hand after we have started supplying, the order pipeline is strong and we will catch up and it's a very fluid situation, so it can change on day to day, week to week basis but I think we are progressively increasing our production output and we should see a fairly normal output by end of June, 2020.

Moderator: The next question is from the line of Vikram Kotak from Lansdowne Investment.

Vikram Kotak: I have two questions, one is your net debt level if I'm correct you mentioned its Rs.280 crore, right on 31st March 2020? Is that the correct number?

Kedar Vaze: It's Rs. 299 crore.

Vikram Kotak: What's the target in next 2-3 years because since you have a strong cash flow and you reduced debt this year as well, how do you see maybe in the couple of years' time where do you see the debt level?

Kedar Vaze: Again, we would continue to reduce the debt level with the cash approximately within a normal year, Rs.100-Rs.120 crore of free cash flows what we have been generating. We will look at the second part of the acquisition of the Italian subsidiary now and after that hopefully, our target is to maintain the debt level at Rs. 300 crore or below and continue to operate like this.

Vikram Kotak: Second question; life post COVID-19 for you as an organization in terms of business processes or in terms of employees or in terms of research, is any major change for you post COVID-19 opportunity wise or processes wise, anything you think or a learning or maybe what you could improve upon what's your feedback on that?

Kedar Vaze: Principally, nothing much will change for us and we have been doing some work from home at this period and we will assess if some of the operations or some of the things can be done from home or break-up the entire team into sub-teams and work from different locations that's the kind of thing which will happen. But on the product side, on the operations side, because they have to actually work with the product's smell and taste of the product, there is no alternative but to run in the current way.

Vikram Kotak: And geography wise also will there be no change, will we maintain the same geography distribution of your sales?

Kedar Vaze: Yes, geography wise we will continue Southeast Asia, India, Africa and now with the European acquisition, we will enter into South Europe.

Moderator: The next question is from the line of Lakshminarayanan KG from ICICI Prudential Life Insurance.

Lakshminarayanan KG: If you look at your Fragrance business and when you look at India, it's close to around Rs.670 crore. If you could categorize into multiple segments in terms of the regional players and the retail as well as national players for FY20?

Kedar Vaze: In terms of the final revenue in March, the cut was little different because some of the bigger orders could not go in time. But if I look at the actual demand point of view, we have roughly 45%-46% from the large customers, 35% from the mid-sized customers and the smaller ones have reduced from 10% to may be 7% for the year.

Lakshminarayanan KG: The domestic thing which is around 45%, which has a large FMCG firms, so what has been your market share, has it been growing with them in the last couple of years?

Kedar Vaze: Yes, we have multiple, so all our large clients, we have done excess of 15% growth in the last 2 years. Correspondingly last year, we had de-growth on the smaller clients. This year the base of the smaller clients was already adjusted. So, if you see that we have continued to grow, had it not been for the COVID-19 pandemic, we would have registered a double-digit growth for the year.

Lakshminarayanan KG: If I look at the fragrance business for the last 5 years, looking from FY16 to FY20, the point-to-point increase in the fragrance business has been around 3% and whereas your operating margins has actually grown 1% over a 5-year period. So, what it would take for us to go back to the FY15-16 growth rate?

Kedar Vaze: For a scenario on the entire basis, we look at the churn, the repositioning of the products in the exports and the effect of GST, demonetization, force majeure in last 2-3 years. Ee are now facing COVID-19 pandemic but the underlying demand and the areas where we are operating and our research will be giving us a strong pipeline of new wins with the large customers, mid-sized customers, all of them. We had the specific challenges in last 2-3 years because we continued to invest heavily in the research. With the scenario around COVID-19 now we will cut down our longer-term research programs and focus more on the next 1 or 2 years of business. So I think you will see a very quick improvement in the pass-through from the revenue and gross margin to the PAT-PBT line in terms of our spend on research coming down and our overall operating margins improving as we have a higher volume base on the same cost of operations.

Lakshminarayanan KG: And one last question is that you can just juxtapose our domestic fragrance numbers vis-à-vis the Indian FMCG industry in terms of volume terms or in terms of revenue term, we seem to be growing lower than the industry but you are saying that you are actually increasing the wallet share in the larger clients. So, what explains that difference?

Kedar Vaze: I think the typical FMCG, when you look at the organized data, it is estimated that around 30% or 25% in fragrance is of unorganized market; which typically does not get tracked in the FMCG reports or investors discussion because they are all very small companies across the country with the GST and demonetization part of those have de-grown. So, if you look at any of the comparable FMCG companies' volume growth and our growth with them, except in few companies like Unilever, where our presence in their portfolio is small. I think everywhere else our portfolio of products has grown at the same rate or faster than their overall reported growth rate. So, we have grown with our customers, our products have grown faster in their portfolio of the products. The reality has been that some of the growth has come at the expense of, some of our smaller brands and regional brands across the country. So we have seen 3% to 4% growth last year and roughly double-digit growth this year; this year we have no de-growth in smaller clients.

Lakshminarayanan KG: If you actually look at the Indian and the non-Indian business, what would be the blended operating margins for domestic/international business?

Shrikant Mate: There is not a large difference Mr. Lakshminarayanan. Of course, there are some changing patterns because of the FX rate movements but broadly they are comparable margins.

Lakshminarayanan KG: So, we have reported around 12% on an operating margin and you say that would be broadly same between India and internationally.

Shrikant Mate: Yes, if you are referring to the segment operating margin slide.

Lakshminarayanan KG: For Fragrance, Rs.119 crore divided by Rs.998 crore.

Shrikant Mate: Yes.

Lakshminarayanan KG: And if you go back to FY17 and FY18 it was around 15% and it has actually come down to 12%. How much you attribute this to raw materials so that there is a 300bps difference from FY17-18 to now, right? And how much you would attribute to something else?

Shrikant Mate: I would attribute out of this 300 bps erosion, roughly 200 bps to raw material cost situation because it's only now that we are able to have stable RM pricesand remaining 100 bps would be for other expenses , we have also been working on cost optimization. that's the broad break I would give.

Kedar Vaze: There have been some one-offs expensesthis year as well, as we have taken some redundancies and client closures.

Moderator: The next question is from the line of Anshul Saigal from Kotak PMS.

Anshul Saigal: I just want to know carrying on from the previous question where the margins have contracted in the standalone business meaningfully over the last 5-6 years. I think they have contracted from as much as 20% to now about 11%. What is that on account of and you referred to R&D, as a proportion of sales actually contracting? How much was it then and how much is it now as a proportion of sales and so if it contracts where can we see margins in the next 2-3 years? That's one and the second question is that I noticed that our revenue growth has been somewhere in the region of say 5% to 10% compounded over the last 5-6 years and you referred to the strength that the company has being in business 95 years and having a portfolio of products etc. Now why is it that, that strength is not getting translated into better growth? Is it because of industry growing at slower pace or some other aspects which we don't understand? I will appreciate if you can address these.

Kedar Vaze: On the R&D, we had roughly Rs. 55 crore of expenses last year and the similar level of expense this year as we have already taken certain amount of redundancies and certain amount of R&D closure in Netherlands. We are also looking at further optimizing the R&D spend across the Company for looking at the current demand and operating environment. So that's a lever which is within our control to decrease or increase on a longer-term basis. We have always been maintaining 3% to 4% of the sales as our target R&D and trying to grow at 12% to 14%. I think the market environment particularly in India in the last 2-3 years has been much poorer and I suspect that in the last 3 years, the industry growth would have been in 3% to 4%, majority of which has been taken by the larger players where we've also seen growth for us. Our churn of products in terms of export was where we had due to the force majeure,certain products which we exited, there the margins were lower. So, we have planned and exited roughly Rs. 50 crore of revenue in the last 2-3 years. So if you look at our 5% to 6% growth, we have actually churned the growth to better margin products else the gross margin could have been much worse. So, we have adjusted business to have lower growth, less credit risk and better margin, which is a sustainable longer-term business, then try to grow at 10% with a longer credit terms, our focus has been towards the correct kind of quality business that gives us year-on-year growth.

Anshul Saigal: Previously, in the call, you mentioned that being in business 95 years, you have a whole array of products and also an understanding of local markets etc. Now if that is the case, why is it that our growth has been on a compounded basis, 5% to 10% and

then of course there has been that kicker of acquisitions but why has organic growth been 5% to 10%? Is it because of industry growing slower or some other aspect?

Kedar Vaze: Yes, so the industry as a whole was growing much slower in the last 3-4 years in the domestic market. When you look at the larger players and the reported numbers of FMCG and so on, so forth, which data ismonitored by us on a regular basis, using Nielsen, Euromonitor and others. We typically cover only 80% of the market. There is a 20% to 25% market which can be tracked by any kind of data tracking. So, there are a lot of small players in different parts of the country and those are really not tracked as a consumption or FMCG. Post the GST particularly, I think a lot of these players had a very big competition and we have seen 2 or 3 quarters of large growth for companies, like Unilever even has reported quarter-on-quarter 11% volume growth; which speaks that a lot of that is market share which has gone from our customers to the likes of Unilever, Godrej, Emami and other large players. There has been a churn for us, particularly we have lost market share in the present scenario, as the global MNC brands were much lower. We haven't grown at the same pace as what otherwise we would have.

Anshul Saigal: If that is the case, are these MNC players procuring from international competition with whom they have tie-ups internationally or are there local competitors?

Kedar Vaze: No, they are buying from the international players, which they have global tie-ups.

Anshul Saigal: And what is the hindrance to us to gaining market share then?

Kedar Vaze: Nothing, just matter of time.

Anshul Saigal: In cost structure, which is the equivalent competition and is the quality similar?

Kedar Vaze: I wouldn't comment that as a broad-based better and worse. I think we have our strengths; they have their strengths. In certain segments we are better, in certain type of products, they are better. So, each company has its unique strengths and weaknesses, so by and large, we are in the same bracket to compete. I don't see anything that we cannot offer or are deficient. Yes, we don't have the breadth of global presence or the kind of manufacturing in various locations and so on and so forth but we are supplementing that with a better understanding of local trends.

Moderator: The next question is from the line of Anupam Agarwal from Lucky Investments.

Anupam Agarwal: My first question is basically you mentioned about your overall utilization and plants right now at about 50%. So, question is what was this percentage pre-COVID-19 and what is the peak optimal utilization for our kind of industry?

Kedar Vaze: So generally, our industry does not measure output on the basis of capacity constraint because there is a lot of capacity. Constraint is driver in plants which are not normally fully automated where you have a defined capacity. So typically there is a big leeway on what is the capacity utilization and what is the final revenue; based on the type of product, per kilo cost of the product and the size of the batch and so on and so forth. Our product mix what we are offering, are typically operating all our plants at a basically around a 50% average and on the formulations plant around a 40%-45% average for the manufacturing. Wehave a capacity with additional shift, with additional basis to quickly double the output in a short span of time. I think at this moment with the COVID-19 scenario, we are half of our normal operating level. So, we would say 25% or 30% of the full capacity of the plant and 50% of the normal operating capacity of the plant.

Anupam Agarwal: On peak, we would be able to do 80%-90%?

Kedar Vaze: In terms of what we call surged demand if we have, demand in excess of the normal average, we can pick up the production for a period of time and even double or triple the output for a couple of months in a normal basis, that is without too much expense, CAPEX or anything.

Anupam Agarwal: My question was coming from the slide that you mentioned about your asset turn being 2X. So, at what level of utilization is this 2X target?

Kedar Vaze: The capacity utilization is not linear in terms of revenue and so we typically see 15%-18% extra capacity gives us double the revenue because of a value addition over a period of time, the average selling price and the kind of product, premium products are more. So, it's not directly linear to the capacity utilization but just to say that we have enough capacities and if the revenues started to be, we have double the revenue and double the production capacity where required. We don't need to invest anything for taking that business.

Anupam Agarwal: And just a clarification; you talked about Rs.50 crore of revenues you have done in Q1 FY21, till today?

Kedar Vaze: That's right.

Anupam Agarwal: And you also mentioned about Rs.30 crore of sales which did not happen in the last 15 days of March. So, are those Rs.30 crore sales lost or are they deferred?

Kedar Vaze: So, most of those sales are deferred because they are not seasonal products. Maybe Rs.2-Rs.3 crore of that will be lost for this year, they will come back in the later part of the year maybe fourth quarter. So maybe Rs.2 crore of the Rs.30 crore is lost. Rest is deferred. So as the customers come back, they will require those products.

Anupam Agarwal: So, is that Rs.27 crore included in the Rs.50 crore or is it separate to Rs.50 crore?

Kedar Vaze: No, it's not included in the Rs.50 crore, maybe some of that has already moved. I don't have a split but my estimate is around Rs.10 to Rs.12 crore of the Rs.30 crore has moved. Rs.17-Rs.18 crore of the Rs.30 crore has not yet moved as those customers are not yet operating in, maybe, a meaningful way.

Anupam Agarwal: Just on the order book visibility, if you can give some colour and sense of how is it looking or how is it shaping up for the second half of this year or till December that would be great. I mean from the demand side, how green is it?

Kedar Vaze: I think the demand side for us will increase more than the last year. I think that, overall across the board, there will be 8% to 10% additional demand given that some of our competitors are also unable to service their clients and even in the larger competitors, we are seeing demand coming back to us or moving to us. I think we will be in a good position this year to also take some market share from the competition. So, we hadroughly Rs. 50 crore of new wins clocked for this year with annualized potential of Rs.70-Rs.80 crore of new revenues for the coming year. I would just put a caveat of subject to COVID-19 because we don't know how much of that business we can regularly service but we have a strong pipeline of new wins of Rs.50+ crore as we get into FY21.

Moderator: The next question is from the line of Susmit Patodia from Motilal Oswal.

Susmit Patodia: How much is the contribution of Skincare and Cosmetics in the Fragrance segment?

Kedar Vaze: Skincare and Cosmetics is a small part of the Fragrance business in general, 3% to 4% of the total revenue. If the category is very large in value terms but volume terms, it's a fairly small level of fragrance used in that category. When you talk about Skincare, now products that are used for skin cleaning like hand wash, body wash, this we typically add into personal wash. So, when we say skincare or lotion, creams, this is a small products value.

Susmit Patodia: The other thing I wanted to ask if possible, which is if I could take you back to Jan-Feb and what would be your 3-5 years plan and how would it look like? If you could just give us a peek into that?

Kedar Vaze: I think these are the times when we are focusing our attention on making sure we are back to normal operations. So much of the attention, mind space is focused on making sure we get out of this crisis strong and are able to run. The market scenario post-COVID-19 will be quite different from the pre-COVID-19 situation, both from the kind of demand, type of demand and the competitive landscape. I believe that there will be further consolidation and further scenario, where the small companies through COVID-19 may not be able to operate in the current situation.

So, we see that the competitive space across the world in South East Asia, Middle East, India, Europe; the ones who have survived through the COVID-19 in terms of who have been properly able to service will get a big jump in the market share. We are well positioned in terms of the capacities, inventories and the strong financial position in the market. We have the product pipeline from the R&D already in place. So, we don't have to design products for the future, they are almost all of them are ready at least in the prototype space. I think post-COVID-19 we are well placed to take up the opportunity where they come and we may see a phase of growth which is restoring us back to the normal double-digit plus growth that we should be tracking.

Susmit Patodia: We closed March with about 110 days of inventory. So, when the manufacturing facilities were shut, could you liquidate this inventory, some part of it?

Kedar Vaze: No, we did not liquidate the inventory because also there was nobody operating. So, it was not that somebody else needed the inventory, it was like a pause button, everybody was staying where they were.

Susmit Patodia: The Company has about Rs.320 crore of non-RM cost as of FY20. How much of that can be optimized in a year like this?

Kedar Vaze: We are looking at the various cost elements in detail and we are planning for 20%-30% decline and plus looking at each element from a first principle such as what do we need, what is the nature of the cost expense and focusing on what is required and essential for next 2-3 years. So, all the long-term projects, long-term proposals that we have been running as a product development or prototyping and so on, so forth, we will reduce this year.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I now hand the conference over to the management for their closing comments. Thank you and over to you.

Kedar Vaze: Thank you. I hope I was able to answer all your questions satisfactorily. Should you need any further clarifications or would like to know more about the company; please feel free to contact our team or CDR India. Thank you once again. All of you stay safe till we speak again. Thank you very much.

Moderator: Thank you very much. Ladies and gentlemen on behalf of S. H. Kelkar and Company Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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