November 15, 2021

To
The Manager
The Department of Corporate Services
BSE Limited
Floor 25, P. J. Towers,
Dalal Street, Mumbai – 400 001

Scrip Code: 539450

To
The Manager
The Listing Department
National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex,
Bandra (East), Mumbai – 400 051

Scrip Symbol: SHK

Dear Sir/ Madam,

Sub: Submission of transcript of conference call under Regulation 30 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are enclosing the transcript of Q2 & H1 FY 22 Earnings conference call for investors and analysts organized by the Company on Monday, November 01, 2021 at 11:00 A.M. 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 & GM Legal

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Encl: As Above

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S H Kelkar & Company Limited
Earnings Conference Call Transcript
November 1, 2021

Moderator Ladies and Gentlemen, Good Day and Welcome to S H Kelkar and Company Limited 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anoop Poojari from CDR India. Thank you and over to you.

Anoop Poojari Thank you. Good morning everyone and thank you for joining us on SH Kelkar and Company Limited Q2 & H1 FY '22 Earnings Conference Call. We with us Mr. Kedar Vaze – Whole-time Director and Group CEO; Mr. Shrikant Mate – EVP; and Mr. Rohit Saraogi – EVP and Group CFO designate of the Company.

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

Kedar Vaze Good Morning everyone and thank you for joining us on our Q2 FY22 earnings call to discuss the operating and financial performance for the quarter and the first half of this year. We have reported a steady performance in the first half of the fiscal. Our European business registered healthy growth on back of higher consumption and demand during this period. On a consolidated basis, our revenue from operations in H1 grew by 31% on a year-on-year basis and on a like-to-like basis, by 15% year-on-year. H1 FY2021 result included consolidation of CFF for only two months - August and September, so on a like-to-like basis, CFF's core fragrance business grew by 39% in H1 and it maintains a two-year CAGR of more than 10%. The Emerging Market sales grew by 9% during the first half of the year. In the quarter, revenues from operations stood at Rs. 358.3 crore as against Rs. 351.9

crore for Q2FY21. This muted performance was on back of a challenging macro-economic environment witnessed in the Emerging Markets and a higher base effect of Q2 last year.

In the corresponding period last year, we had witnessed pent-up demand in various Health and Hygiene segment with new entrants in the category. This has subsequently come back to normal traction. In addition, Southeast Asia business was mostly impacted due to continued spread of COVID-19 and intermittent lockdown. Overall, emerging market's revenue stood at Rs. 276.1 crore as compared to Rs. 313.7 crore in Q2 FY2021.

On the raw materials front, we continue to witness cost pressure on account of global inflation in raw materials. Our inventory policy, better product mix, and our ability to pass on price increases helped us to minimize the impact on margins. Gross margins stood at around 41% in Q2 and H1 FY'22. EBITDA margins on a like-to-like basis including other income stood at 15.8% in Q2 & H1 FY22, respectively. EBITDA margin impact was also on account of lower revenues in the Emerging Market. In order to efficiently mitigate cost pressure and to normalize our operating margins, we are working with our customers to undertake further price hikes in the future. Overall, we are monitoring the raw material situation that has been evolving in the recent past.

Our reported PAT in H1 has come at Rs. 103.5 crore with PAT margins at 14.4%. In this quarter, there was a one-time exceptional loss of Rs. 6.2 crore due to flood wherein the Mahad facility operations were disturbed and an equal amount is recoverable from the insurance Company. Accordingly, the Company is in process of filing business interruption claim in the coming quarter. However, for Q2, this cost has been taken as an exceptional cost. Q1 FY22 included the reversal of additional tax provisioning aggregating to Rs. 64.5 crore consequent to the ITAT order. Adjusting for this, our PAT stood in H1 at Rs. 45.2 crore. In addition, we expect somewhere between Rs. 8 to Rs. 9 crore of insurance claim in the future quarters. With that, our PAT will be Rs. 54 crore for the first half of the year.

From a consolidated balance sheet perspective, our net debt stood at Rs. 347 crore as on September 30, 2021, compared with Rs. 334 crore as on June 30, 2021. This increase in debt was primarily due to higher working capital on inventory in the current environment.

In another development, the Board, at its meeting on Friday, has approved the buyback of SHK's fully paid equity shares of face value 10 each at ₹ 210 per equity share through a tender offer route. The total amount of buyback size will be a maximum of Rs. 60.9 crore. The Company proposes to buyback 29 lakh shares at the offer price representing 9.64% and 6.65% of the aggregate of the total paid-up equity share capital and free reserves of the Company based on the audited standalone and consolidated financial statements of the Company respectively as of March 31, 2021. This signifies our confidence in both the balance sheet and our future cash flow over the medium to long term.

The health and safety of our employees and community has been a key focus area for us. I am pleased to share that all our employees and their families have been fully vaccinated. We had also extended the vaccination drive to employees' relatives and secondary manpower and their relatives. Following this, we have fully resumed office from September 15 onwards with all necessary safety protocols in place.

To conclude, we are seeing recovery in the domestic macroeconomic environment. There are indications that consumption in the country will strengthen in the months ahead. With improving economic indicators and the upcoming festive season, we are optimistic that the demand environment will pick up for the second half of this year. Overall, we are encouraged with a healthy client engagement and enquiries across Emerging and European market. Our focus remains on adopting and keeping pace with the changing external environment. Looking forward, we will be undertaking efforts to grow and invest in the high potential Emerging and European markets, which we believe will fuel up business momentum. In a normal demand environment, we are confident that our emphasis on growth will enable us to report healthy performance going forward.

Before I close, I would like to once again thank Shrikant Mate for his contribution to the growth of SH Kelkar and wish him best in his retirement. In the last couple of months, Rohit and Shrikant have worked closely to ensure a smooth transition. Rohit will formally take charge as the Group CFO with effect on November 15, 2021.

With that, I now request the Moderator to open the forum for any questions or suggestions that people would have.

Moderator Thank you very much, Sir. Ladies and Gentlemen, we will now begin the question-and-answer session. The first question is from the line of Bhavesh Chauhan from IDBI Capital. Please go ahead.

Bhavesh Chauhan Sir, would like to know about our margin performance, from last quarter our EBITDA margins have fallen from 20% to 15% and we are seeing quite a bit rise in input cost as I understand across many industries. So, going forward, what is our outlook on margin, are we taking any pricing action or something?

Kedar Vaze We are now looking at scenario pretty much like hyper-inflation on some of the commodities. We are working closely with our clients and looking at undertaking price hikes in the months to come. However, we will be in a better position to focus on absolute EBITDA and absolute margin rather than relative percentage margin as the sales price will get distorted quarter-on-quarter in the upcoming two-three quarters. Given this situation, we will also be updating regularly in a couple of weeks when we have clarity on where the raw material pricing remains. I expect that the situation should be normal by end of the fiscal, so April or May, we will see the normalcy in terms of ratios but till that time in two-three quarters, we will be required to focus mainly on the absolute margin and absolute profit without looking at the percentage on sales as that number will get distorted.

Bhavesh Chauhan Secondly sir how is the demand environment currently and are we seeing any new order backlog or you know new clients that we have added in the last three months or so?

Kedar Vaze I think the demand environment is pretty normal at this point, in fact,it is quite healthy. Given the festival and recovery post July-August, I think from September second half, we have seen good recovery in demand. Obviously, the demand recovery is one side of the story and we are now looking at the raw material situation so that we balance the growth and the margin profile.

Bhavesh Chauhan Sir, lastly I would like to ask Management on their views on capital allocation. Sir, we have some debt in our books and then we are going for a buyback and also there could be opportunities for inorganic growth. So by doing a buyback are we saying that we are not going to repay debts in a very meaningful way and also there is no further inorganic growth strategy that the Company is looking for?

Kedar Vaze There are a couple of points, one is that last year onwards, we have been maintaining very low ratio of profit distribution given the uncertainty around the pandemic. We are now in a post-pandemic situation and there is no extra need of conserving cash. We do not see any set of complete stoppage of business happening, so we are now restoring back our confidence in the cash flows and distributing the profit as per the profit distribution policy. In addition, we have had a one-time gain of Rs. 64 odd crore in the first quarter as a result of a tax refund. So this is getting passed through to the shareholders via proposed buyback

On the debt side, most of the debt in terms of the quantum is in Europe, largely towards acquisition and working capital, either in Euro or US Dollars, and the interest rate continues to be a very low , so we are comfortable to maintain the current debt level and continue to grow the business from here on. It does not make very big sense to reduce the debt in the European markets where their interest rates are very low.

Bhavesh Chauhan The last question from my side, what is the sales growth that we would be looking forward to in the next let us say three to five years?

Kedar Vaze We are committed to 12% CAGR growth. I do not see any change there on the business in the long term. We obviously will have quarter-on-quarter ups and downs due force majeure or different kind of environmental and economic factors but we are committed to 12% CAGR growth in the mid-to-long term.

Moderator Thank you. The next question is from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia I just have two questions. My first question is largely on the RM side, so if you can just give some perspective in terms of RM inflation which we are seeing. What kind of further inflation we expect? So in Q2 we would have taken some price increase and coming into the October-November, have we taken any further price increase which covers the inflation? I am asking this because if we look at our competition, especially the MNC players and the industry in India, they have started this whole policy of surcharge to account for freight and exceptional RM inflation and that has been going on for last one or two quarters, so for us where are we positioned in terms of pass through of raw material inflation, so that is one. Second is on the Mahad thing, we have been having this kind of problems repeatedly for last few years, so any thought on supply chain diversification just to mitigate this risk in the future?

Kedar Vaze I can answer both the questions, on the raw material inflation, we are working with our clients on an ongoing basis, we are continuously having a dialogue with them around the price and cost inflation. I think in the events leading up to the last week of September in China, there was further force majeure declared because of the energy crisis and the closure of the coal power plants. Subsequent to that, we have witnessed another round of hyper-inflation in raw materials. With our inventory policy of maintaining high enough levels, we are quite well-covered in to the next couple of quarters and we will look at gradual phased manner price increases to our clients, so that we balance the recovery in growth with the price inflation and we do not want to end up with a situation where the price inflation stops the volume growth recovery. So the fine balance will be maintained between the raw material price, selling price increase and continued volume momentum. Having said that, we are on top of the scenario on the raw material with our contracts and our inventory policy, so we will be better placed in couple of quarters to manage this.

Coming to your question on Mahad, we do have a plant in China, which was bought as a BCP for the Mahad plant, so we have two plants manufacturing more or less the same products and in this lockout period or stoppage period due to the floods, we have ramped up our capacity in China and have produced additional materials to balance the shortfall that we faced. As of now, we have not lost any business as a result of the Mahad flood. The only issue there is that the costs, which were incurred in this period have not represented or reflected in the books of accounts till we have a confirmation from the insurance claims, so that part should also be coming in the quarters ahead.

Viraj Kacharia So on the RM inflation side again, just from an approach point of view, will the approach largely be on getting more volume, not be that aggressive in terms of pricing or we kind of having a more balance?

Kedar Vaze I think we will work with the clients one to one. There are obviously pressures across the board, so we will work with our clients and we are confident to pass on the cost increases as it is a flow through. We will be selective, and we will manage that we do not dampen our growth and future prospects, so we will ensure that we get into the next year with good momentum on the business growth. At the same time, we will enable sufficient price increases to cover for our cost.

Moderator Thank you. The next question is from the line of Rohit Nagraj from Emkay Global. Please go ahead.

Rohit Nagraj Thanks for the opportunity, Sir. The first question is on CFF, the performance has been decent and EBITDA margins have been about 11%-12%. We have indicated earlier when we acquired the Company that since it is into premium category of products, we may look at expanding the product basket from Europe to some of the Asian countries. Any thought on this that we will be doing it, I mean obviously during the interim period, the pandemic has caused issues but any strategy on this front?

Kedar Vaze We continue to get the development work on both sides within India and Europe and in fact within Asia, with our centers in Singapore and Jakarta, they work together. We are, at this moment, not really pushing synergies because each business has local issues and the pandemic and workforce coming to office at various times but once there is normal travel and everyone is working in the office, we will further look at cost optimization and using libraries across various Development Centers. We will bring down the R&D & development cost as per revenue optimization on the overall sales. I think as a result of the pandemic also, the gap during the market in Europe and particularly Asia has increased. I expect that we will see a slow recovery in economic activity and higher premiumization, which was the trend previously. In normal economic cycle, we will have our product range ready in Italy for launching into Asia.

Rohit Nagraj Sir, if you could just provide some understanding on how the recovery is happening across the user segments like Fine Fragrances, Personal Care, Home Care, and just to give an understanding how much we have reached in terms of pre-pandemic levels across these segments, that will be helpful?

Kedar Vaze I think the part of the business across all sectors has improved. In the first half, I would say, May, June, July, were the peak decline months where lot of the Fine Fragrance, Deos and similar products' business was half of the normal volume. Subsequently, in August and September, the said business has restored and resumed at the normal levels.

Rohit Nagraj Okay, that is helpful and now we are halfway through the year, would you like to give any guidance for FY22?

Kedar Vaze I think our guidance remains the same. We have talked about a 12% CAGR in the year-on-year, I think we are quite confident to achieve that. Initially, last year we had also guided for a jump back on the first half since last year first half was muted. Unfortunately, this year first half was also affected by the same pandemic-related issues, so we are confident of 12% CAGR over last year and then in fact continuing growth from thereon in the Emerging Markets, the base business. The European business has been clocking 12% CAGR over the last two years and we expect that to continue. In the overall picture, we will also need to optimize some of the sales based on the margin and raw material inflation. So on a longer term we are confident to do the 12% plus growth rates. The margin percentages will be something which will see a dip and we will need to take a certain strategic hit in the margin in this quarter given the hyperinflation, but we will be able to restore that back to a long-term 42%-43% gross margin and continued growth.

Moderator Thank you. The next question is from the line of Dhaval Shah from Svan Investments. Please go ahead.

Dhaval Shah Just one clarification I wanted on the inventory side, you mentioned we are covered for next two quarters in terms of the pricing, did I understand that correctly?

Kedar Vaze No, in terms of raw material availability, pricing remains a challenge, the cost pressure definitely will be there but in terms of supply situation, we are well covered for the next two quarters. We hope that the supply situation should restore sometime in this period and then we will update you from time to time if we see any change.

Dhaval Shah You meant you are covered in terms of volume availability and the pricing remains open?

Kedar Vaze We have covered our material, regarding price inflation, we will work out strategy and pass on to our clients.

Dhaval Shah When you mentioned about maintaining the absolute EBITDA and not the percentage. So, historically, how have you worked around, largely you have been working on the percentage terms, then what sort of renegotiation you would have?

Kedar Vaze As a very basis situation, if my selling price was ₹ 100 and ₹ 50 was my COGS and ₹ 50 has become ₹ 60, in such situation we will be able to pass on the 10% inflation or 12% inflation on the top line to our clients, plus we will have to look at the product mix and make proper use of the available raw material and improve the overall EBITDA margins. Also, there will be cost control which we need to do and actively the idea is to maximize absolute margin in line with what was the original budgeted number. The top line will get distorted on account of the inflated selling price but that we will pass through cost increase to the clients.

Moderator Thank you. The next question is from the line of Nikhil Upadhyay from SIMPL. Please go ahead.

Nikhil Upadhyay Just two questions on the comments you made during the call. In one of the earlier questions, you mentioned that we would be looking at a growth in next year but subsequently you mentioned we have been having a 12% CAGR growth for this year. Considering the weak first half, do you think that the 12% CAGR growth is still possible for this year or do you think the growth options are more from next year onwards only, just to understand it?

Kedar Vaze If you look at the first half with the Emerging Markets, India situation being muted, we have still done a 15% growth on a like-to-like basis including Europe and kind of Emerging markets, so we are confident to continue that track. We also see demand revival in the Emerging markets, so I do not see a big challenge to maintain the 12% growth, although the first half has been muted. I see this as very similar to last year. We had seen a big jump back in the second half, so on the growth, I am not seeing a big challenge. It is a question of maintaining and managing the gross margin percentage and the absolute gross margin, which will be a challenge as the cost increase has been very steep in the last few weeks.

Nikhil Upadhyay Second question, Sir, you mentioned in the call and also in the presentation that the Emerging Markets are weak and if I go back to our call two to three years back, we had '3Is' as key markets which were India, Indonesia, and Italy. Is Indonesia market because of COVID has been disrupted significantly and that is why, the growth in this quarter has been slow or is it like this is across India, Indonesia, all of the markets have seen a major disruption?

Kedar Vaze We have clearly seen the sort of pandemic and post-pandemic scenario, so in Europe and Middle East where the vaccination drive had begun earlier than in the emerging markets like India and Indonesia, we have seen that the recovery phase has already started, so we know that we can expect the similar thing in India, Indonesia and these emerging markets in this post-pandemic scenario. We will remain cautious because the pandemic scenario varies, so our business plans will maintain the agility in terms of being able to react to any situation that may emerge but we are going on this basis of post pandemic scenario and restored growth coming back in the Emerging Markets. In India, for sure, we are already seeing the momentum. For Indonesia, which is one of the 3Is, and in Southeast Asia in general, the pandemic situation is still bit more difficult than in India and it will take more time to play out but I strongly think that by end of the year, we will see the emerging market, Indonesia, Southeast Asia business also recovering.

Nikhil Upadhyay Sir, just one thing Southeast Asia would be contributing what percentage of our revenue, approximately?

Kedar Vaze 7% to 10% of our revenue on the fragrances and overall, 5% of the total.

Nikhil Upadhyay Lastly, you mentioned in Mahad there was a cost which we have booked in P&L, what was the quantum which we have booked?

Kedar Vaze We have booked Rs. 6.2 crore as the exceptional cost in the P&L this quarter.

Moderator Thank you. The next question is from the line of Anuj Sharma from M3 Investments. Please go ahead.

Anuj Sharma Kedar, two-three, years ago you had made a reference that the cost increase or the raw material inflation may be sort of once in a six sigma event or maybe once in a century event, if you draw parallels to that raw material escalation and currently, what is the parallel and is it a more broad-based escalation or it is driven by few cost elements, few materials?

Kedar Vaze Few years ago when we had a force majeure scenario in our industry it was very much industry specific, very large inflation that was related to, I would say, 50%-60% of our raw materials. At the moment, what we are seeing in term of raw material inflation is a broad-based inflation in commodity, speciality chemicals, naturals. Basically, it is an average increase of inflation. It has been sort of rebound after the pandemic with the demand going up, supply remaining muted plus added layer of disturbance or logistics, container availability, cost of freight, cost of fuel, and the latest events in China leading to further short supply. So in total, this is inflation which the clients are also facing and everybody is aware, so for us to get the price increases with the clients, it is relatively easy, it is a relatively pan-industry broad inflation and not specific to our industry.

Anuj Sharma Just one more reference if I go back, our gross margin had shrunk to approximately 40%-42%, when we compare it now and when you are seeing the next two-three quarters, do we think while you said we are focusing on absolute, do you think we can patch back those numbers in terms of gross margins?

Kedar Vaze When you look at 41%-42%, we have some level of inflation inside plus we have the effect of our Mahad plant project, so we needed to buy some raw material and maintain our contracts at a low margin. We were able to continue to supply our customers, so this is muted largely on account of the Mahad situation. If I exclude Mahad in terms of this insurance claims, then it would be in excess of 42% in this quarter and it is in line with our long-term expectation. We also see the product mix scenario with the pandemic affecting more of the high value, small volume products than the lower gross margin, bigger volume products. So the product mix of the Mahad is accounting for a slight decline in the gross margin. Going forward, I think we are still on a strong base of 43% gross margin if I look at the actual product mix that we expect to sell now.

Moderator Thank you. The next question is from the line of Rajesh Kumar, a shareholder. Please go ahead.

Rajesh Kumar My question is we have won an order for a homecare brand of one of the MNCs at India. So, congratulations on that, just wanted to know is this the beginning of winning few more orders from the MNCs. And second is, how big is this order?

Kedar Vaze This is obviously a beginning of our long-term strategy that we have been focusing on new molecules and making development and research ahead of what we require, so it is a good sign that we have one opening and we will grow from here. This specific product will be anywhere between Rs. 25 to 30 crore annual revenue and we hope to get additional more businesses in line with this long-term strategy. As we have discussed in the past within particularly the India market, our market share in the non-global MNC is quite high and the global MNC brands which accounts for almost 40% of the India fragrance market, our target is for getting additional sort of incremental share.

Rajesh Kumar My second question is, paint industry is doing extremely well in spite of COVID pandemic, two years back, I think our products were approved by one of the leading paint manufacturers, so what is the latest update on this and did we receive any order from them?

Kedar Vaze The Industrial products, as we call, it is not specifically only paint, there are paint textiles, varnish, lot of companies in that industrial belt. So industrial products, we have seen almost 100% growth in these areas over a last couple of years, so it is doing well. We will continue to see growth in those areas.

Rajesh Kumar Is this industrial product which you are mentioning, does it include the industrial fragrances which we had launched a year back including Keva roll-ons and etc?

Kedar Vaze Industrial product, it is Fragrance sales to the industrial products, so these are not typically classified as FMCG products, it is not soap or detergent or this, so anything which is textile, paints, housing, wood, varnish, lot of things that are used in the household but are not typically FMCG products where replacement products are sort of capital goods, white goods that market we are seeing good growth 50% plus growth year-on-year and that is a nascent market, so we see a good run rate for that market in the next few years as well.

Rajesh Kumar How much percentage does it contribute to the overall revenues this industrial segment?

Kedar Vaze At the moment it is small, it is in sort of Rs. 10 crore ballpark, but you see that this is only I would say 1% or 2% of the total potential of these market, so if the market is very large, we are seeing this will be sort of growth area for us.

Rajesh Kumar When you say this 50% growth year-on-year, does it include that means we have received the order from these paint companies also?

Kedar Vaze We are supplying from last year and that orders have doubled since last year, so it is a big growth over last year and we will see this growth being there continuously.

Rajesh Kumar Sir, my last question is what is the status on the Fragrance encapsulation technology, I think we had taken some trials a year back, so any latest update on that?

Kedar Vaze Also on the encapsulation, we have put in expanded part of our capacity, we are doing well. We are also looking at first initial leads at European market for exporting this encapsulation and also in the Middle East, so the initial trials and feedback from the client is good. Again, it is a scaling-up business, it is quite small at the moment and we will continue to grow that as we go ahead.

Moderator Thank you. The next question is from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia Just two questions, first is I just want to understand if you can comment how we are seeing trends in the Fine Fragrance space especially, in the CFF or in the European business, any colour you can provide on that?

Kedar Vaze The Fine Fragrance business last year was very muted. This year it has picked up for us quite well although overall Fine Fragrance globally remains weak and is expected to turn around this quarter once it is sort of a post-pandemic demand. Our Fine Fragrance business is largely focused on the new brands and new entrants into Fine Fragrances and we are doing good amount of business wins. As the Fine Fragrance is extremely fragmented market, it takes a few years for any meaningful volume growth but we have good amount of wins and we are quite happy with the development funnel and business traction in the Fine Fragrance business.

Viraj Kacharia For CFF, how much would be for Fine Fragrance, would it be like 5%, 10% of their base?

Kedar Vaze Today, it is smaller than 5%. It is 2% to 3% of the total business but it is completely a new activity which has started two-three years ago and it will ramp up. Our long-term objective is to make 20% of our European business in brand credentials which is a healthy ratio for volume and margin business. Most of the global MNC businesses have roughly 25% of their Fragrance business as Fine Fragrances and our objective is to increase this 3% to roughly 20% while continuing to grow the overall pie.

Viraj Kacharia Second question is, you said that we have a good amount of visibility in terms of growth and hence, we kind of are looking at the buyback option as well but if I have to look at for next two-three years, given that we are still strongly positive on growth and margin recovery, would this be more like a regular feature in terms of buyback, so I am just trying to understand between buyback and repayment of debt?

Kedar Vaze We are committed to our profit distribution policy of 30% to 40% per annum. We will look at both measures, dividend, buyback and any others distribution method that, from time to time, what makes sense in terms of taxation, in terms of shareholders value. We also believe that buyback gives a better representation and better value for longer term shareholders than dividend where effectively people can own the share for one day and get a dividend rather than having to own it for a bit longer and we are committed to the profit distribution policy which we have announced within 30% and 40% of that we generate.

Moderator Thank you. The next question is from the line of Mr. Bhavya S., an Individual Investor. Please go ahead.

Bhavya S. Sir, thank you for the opportunity, my first question is, during the GST implementation, you had alluded that the small businesses are also forming a part of our business and this year's demand at GST level shows that a lot of businesses closed down too, so right now, currently, how are we seeing small businesses form a part of our revenue and how are they growing?

Kedar Vaze About 10% of our domestic business is in small customers and they continue to maintain their business. We have seen as I mentioned earlier lot of churn post GST, demonetization and the number of customers that have degrown or consolidated at the marketplace. Today, we have roughly 10% of our customers and sales in the small market. It is a market which is quite robust, however, the sales have disproportionately affected when there is a lockdown or a pandemic news because customer said that their address is mostly in the bazaar, so the small shops and the bazaar market if it is closed on account of lockdown, there will be immediate slowdown. They are not really represented in retail, modern trade, or home delivery brands as much, so this is the net effect when the pandemic lockdowns happen, this 10% business has a very acute slowdown but we expect this business to bounce back. There is also pent-up demand from the consumers to buy these products.

Bhavya S. Sir, my second and last question is, can you throw some light on the AYUSH front?. During the last call, you had alluded that it is a robust and growing market and currently are we seeing the same trend, I know it is only three months apart but is there any update and can you throw some light on the same?

Kedar Vaze Our Wellness Ingredients part of the business is also doing well. Our research in that has created a couple of new products. Again, it is a nascent market and the market is very big. We are coming in late in this market but we want to be a product differentiated by science because in natural extracts business, there are a lot of players but with an undifferentiated product mix. So our approach has been to apply scientific principles and our science knowledge to these extracts which would be quantification and the exact active ingredient definition. This market is nascent but we see that this market again gives us a leg for large growth in the future but it will take two-three years of product maturation and building the product range to then go into those markets.

Bhavya S. Sir, just a follow up on that, how much currently would it be contributing and what do we tend to take it towards?

Kedar Vaze It is small, it is around Rs. 5 crore range per annum this fiscal but that has good traction and we are in discussion with some large MNCs as well as local players, so it is a new area for us and it will take some time before the business is meaningful. In terms of growth rates, it will grow fast but in terms of the overall number, we will still be in the Rs. 10-20 crore range for few years.

Moderator Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to the Management for closing comments.

Kedar Vaze Thank you. I hope we have been able to answer all your questions satisfactorily. Should you need any further clarifications or you would like to know more about the Company, please feel free to contact our team of CDR. Before I end, I wish you all a Happy Diwali and thank you for your time to join us on this call.

Moderator Thank you very much, Sir. Ladies and Gentlemen, on behalf of SH Kelkar and Company Limited that concludes this conference. We thank you all for joining us and you may now disconnect your lines.

-End-

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