November 26, 2024

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: Transcript of Conference Call for Investor and Analysts

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are enclosing the transcript of Q2 & H1 FY 25 earnings conference call for investors and analysts organized by the Company on Monday, November 18, 2024 at 11:00 A.M. IST. The audio recording and transcript is also available on the website of the Company at www.keva.co.in

You are requested to take the same on record.

Thanking you,

Yours faithfully,

For S H Kelkar and Company Limited

ROHIT SARAOGI
Digitally signed by ROHIT SARAOGI
Date: 2024.11.26 10:54:52 +05'30'

Rohit Saraogi
Company Secretary & Compliance Officer

Encl: As above

S H Kelkar and Company Limited

Q2 & H1 FY25 Earnings Conference Call Transcript

November 18, 2024

Moderator

Ladies and gentlemen, good day and welcome to the Q2 FY25 Earnings Conference Call of S H Kelkar and Company Limited.

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 S H Kelkar and Company Limited's Q2 & H1 FY2025 Earnings Conference Call.

We have with us Mr. Kedar Vaze – Whole-Time Director & Group CEO and Mr. Rohit Saraogi – EVP & Group CFO of the company.

We will begin the call with Opening Remarks from the Management following which we will have the forum open for a question-and-answer session.

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

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

Kedar Vaze

Good morning. Thank you everyone and thank you for joining our Earnings Call. I trust you have had a chance to review the results document we shared earlier.

We have reported a strong top-line performance during the period under review, despite a subdued demand scenario in the domestic FMCG industry. This was driven by steady momentum in our small and mid-sized customers and the execution of our prestigious global MNC orders. Additionally, we successfully cleared the backlog from the fire incident, contributing to the first half revenues reaching more than Rs. 1,000 crore, Rs. 1,013 crore to be exact.

On the margins front, the company delivered a resilient performance in H1 FY25 despite the impact of the fire incident on operations. Margins improved compared to H1 FY24 even as they shifted QoQ due to changes in product mix. The investments in Europe and America have also contributed to the cost. The revenues for the same will come in the future quarter. As we move into the second half, we are confident of sustaining the H1 levels. We remain cautious due to availability challenges in certain key raw materials, which may necessitate price adjustments in the coming quarters.

Moving to our European segment, our core European segment delivered impressive performance this quarter with revenues growing by 11.5% on a like-for-like basis. Solid profitability was supported by a good product mix, highlighting the strength of our product categories and the opportunity presented by the region's favourable dynamics. To sustain and further enhance our growth prospects in this high potential market, we have continued to make strategic investments.

We have launched our Creative Development Centre in Germany in June this year and subsequently expanded with an additional center in Manchester, UK, expected to start early next year. These centres are expected to serve as hubs for innovation and act as growth pillars for the coming decades, especially in the European and American markets. This enhanced talent base strengthens our ability to cater to key markets, key customers positioning us to capitalize on sustainable growth opportunities.

In the Flavour segment, we sustained a healthy performance for quarter 1. The division also demonstrated strong profitability, driven by improved market conditions and enhanced operational efficiency.

Our Global Ingredient segment continued its turnaround in quarter 2 by further improving profitability. This progress is a result of structural initiatives implemented in the past, combined with ongoing focus on optimizing operations and enhancing efficiency. Looking ahead, the global environment appears favourable, providing opportunities to build on this momentum and drive further growth in this segment.

On our global MNC account, we are pleased to report that execution of orders is secured for FY25 and is well underway. This continues to gain momentum. These orders spanning multiple products across several categories are driving significant growth in this account. Our teams including R&D, perfumers, marketing are actively collaborating on new business, further strengthening our confidence in the potential to expand this partnership in the coming years. This has positioned us to expand our presence in markets including India and international markets and drive sustainable growth.

To conclude, while domestic demand for large customers remains soft, we are encouraged by strong momentum across our small, mid-sized customers and new accounts. Having delivered a healthy performance in H1, we anticipate an even better H2 supported by strategic initiatives and favourable market outlook for our products.

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

Moderator Thank you very much sir. We will now begin with the question-and-answer session. We will take the first question from the line of Bharat from Fair Value Capital. Please go ahead.

Bharat A couple of questions, sir. First, can you just talk a bit about the volume growth and the price led growth which we have seen overall in the Fragrance space and what was the contribution coming out from the mid and small-scale space in the domestic space?

Kedar Vaze I think two questions, one is the volume and price. So, mostly we had sort of 1% price growth, remaining was volume growth across entire thing. Second part of the question was?

Bharat Sir, the contribution which is coming from the mid in small scale customers in the domestic space.

Kedar Vaze When we talk about the business, there has been a big contribution from the global account. The remaining mid and small have contributed roughly 40% of the growth. 40% of the growth has come from the large account, which is a global account and 20% has come from the mid-size and large corporate accounts.

Bharat And sir, in the domestic space, has the growth been in double digits across all the tier categories of our end customers or there has been some contraction with respect to the Tier-1 clients?

Kedar Vaze No, so the Tier-1 clients have shown slow growth. The global accounts have grown fast on a small base, and we have seen good traction in mid and small clients.

Bharat My second question pertains to the RM side. Can you just talk a bit with respect to the price change of our key raw materials and is there any signs of an increase. And the availability issues which you talked in our opening remarks? So, can you just brief us about the outlook with respect to the gross margin side for the second half?

Kedar Vaze So, we are cautious, I would say that our gross margin expectation is still around the 40%-45% that we have reported for the first half. However, there are some raw materials where acute shortages are expected in the 4th Quarter or 1st Quarter of next year. As of now, we are adequately covered with the stocks in hand, but given the strong growth momentum we are seeing, we may have certain raw material pricing or raw material availability issues in the last quarter. I think we are well covered in terms of inventories at the moment, but there is a sort of storm on the horizon and we are just highlighting that this may hit the industry at some point in the first half of next year. In addition, I would like to say that there is expectation of a lot of changes in the global economic order after the administration in the United States takes charge in January. So, we will wait and see the impact of that for us in terms of our business.

Bharat Just understanding on one bit, if the taxation on China increases by the US government. So, in that scenario, will it be helpful for us because we are importing nearly 25% from the China market?

Kedar Vaze Our dependence on China is much lower than that. We are roughly 10% of our value, which we are exclusively ordering from China. I think the India side, I am not too much worried on the gross margin. I am a bit concerned on the gross margin scenario in Europe. If the tariffs are extended to EU or there are different kinds of trade barriers, maybe the raw material prices will go up. Momentarily, we will wait and see how things play out. On the other side, there is opportunity for our Ingredients division to further boost our exports. given the nature of tariffs that are expected.

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

Dhaval Shah Sir, a couple of questions. So, firstly, the comment you made that H2 should be better than H1. So, does that give us around 12% to 15% topline growth on last year's H2? Is that what we should be expecting?

Kedar Vaze I think last year sales was skewed when H2 was much stronger sales than the H1. So, given that base effect, I don't want to put out an exact number, but our second half will be better than the first half, we are already trending higher, and we will be upwards of the 12% CAGR growth that we have indicated as our midterm growth CAGR. Expect our sales to be better than 12% for the full year. Whether it is 15% in the second half, a little bit more or less, in the full-year basis we will be well in excess of our 12% target. And the second half will be better than the first half by at least, I mean, the initial signs are that its much stronger momentum going into this quarter.

Dhaval Shah And on the, in terms of EBITDA margin, now I am talking about the adjusted EBITDA for the Rs. 10 crore impact of fire. So, our adjusted EBITDA for H1 stands at around 16.8%. So, what sort of number should we be building for H2?

Kedar Vaze So, I think H2 will be similar in terms of percentage. I just want to note or put on record that we have now the full cost of Germany and America Creative Centres which has come on board. This is an additional Rs. 10 crore cost in this period. So, we are looking at the result at the moment at 16.8% with this Rs. 10 crore additional cost in the first half. Similarly, we will have another Rs. 10 crore or Rs. 12 crore of cost in the second half. And these initiatives, the revenues will start to come in next year. So, there is a time gap between the investments in R&D and the revenue flow that comes in. I would say that this is putting us in a very good position to take growth across the world, USA, Europe and all the Asian markets. In the scenario where there is a possible slowdown in the domestic FMCG that we are observing, our continued growth will be propelled in new geographies and new customers through these investments.

Dhaval Shah Sir, this Rs. 20 crore investment in our new centres, could you break that up? So, what is the repetition? How repetitive would it be for the next year or it's like a first-year operations, all this establishment expenses or some employee costs will also be added.

Kedar Vaze Those are all employee and OPEX costs. So, there is a recurring Rs. 20 crore order per annum.

Dhaval Shah So, the Rs. 20 crore is sitting in employee cost plus expenses, both, right?

Kedar Vaze Yes.

Dhaval Shah And sir, about this inflationary trend which you are witnessing on the some of the raw materials. So, you mentioned right now this increase in inventory what we are seeing on the balance sheet. So, that's, so you are doing a buildup of inventory for how many months considering the price increase which you are expecting?

Kedar Vaze So, there are two parts of the inventory buildup. One is because of our new operational reality; we are working in four different sites. So, there is more inventory than previously when we were working in one site. In addition, we have high inventories, which we have acquired in the early part of the year and made contracts. We expect that the inventory level at this point is at the highest. And we will slowly be bringing it down towards the end of the year.

Dhaval Shah But you are expecting the prices to be higher in Q4 and Q1? And you also mentioned in your comment that as of now you have stocked up inventory.

Kedar Vaze	Yes, so this is not a comment on all raw materials there are few natural oils which are currently in difficult scenario due to bad weather conditions or crop failures in different parts of the world. So, specifically products like orange oil, patchouli oil, vetiver oil these are the key components, which is roughly I would say 15% of our purchase basket. These are under threat in terms of availability and pricing as of today.
Dhaval Shah	So, would you also be pitching it to the customer because since there is inflation what we are watching, then you would be adjusting this inflation in your selling price?
Kedar Vaze	We will start the dialogue with our customers. We are hopeful that by February or March some of these prices may come down. Depending on how is the trend we will negotiate and discuss it with our customers and have the pass on to the customer.
Moderator	Thank you. The next question is from the line of Madhav Marda from FIL. Please go ahead.
Madhav Marda	The first question I had was in the initial commentary you said that in the EU market we are seeing some favourable regional dynamics for which you are making this OPEX investment. Could you help us understand a bit more in terms of colour? What is happening on the ground there? Is it sort of some suppliers going out of the market or I mean what are these favourable dynamics which are helping us?
Kedar Vaze	Strangely not having a very strong economic growth is favourable for us because we are not the incumbent, we are the challengers. So, when the markets are looking for a value proposition or more private labels or different offerings it helps us to continue our growth.
Madhav Marda	There is a trade down which is happening there.
Kedar Vaze	There is a trade down. There is also an effect of consolidation. So, the market is over consolidated. There are not many mid-sized players that has helped us to occupy this space, which was sort of earlier companies were there, but they have been now acquired by the bigger companies. So, there is a vacuum created in the mid-sized companies in Europe.
Madhav Marda	And then when you said that H2 will be better than H1, is that a seasonal thing or is that a momentum or portfolio from some of the reasons which you flagged in the earlier commentary? How should we look at that?
Kedar Vaze	H2 normally is stronger than H1. This is a normal seasonality or trend, every quarter three, quarter four is always higher than the first two quarters of the year. We don't

see it any different this year. I think, while the market as a whole in some parts in India and others is growing in the smaller percentage growth, I think some of the supply scenario despite the incident we had, we have been able to maintain good supply and this has enabled us to continue to grow and actually gain some market share in some of the other small and mid-sized segments.

Madhav Marda Just the other question was on the margin side. I think we are at 16.8% in the first half, despite us having spent this extra Rs. 10 crore on creative centres. So, clearly, we could have maybe had high-teen margins, that we're trying to invest in for future growth. But at the same time, I think we do have this view that in a few years, we can reach the 20% EBITDA margin range. So, is that something which can still happen in a 2–3-year view as maybe some of these costs which are spending right now, the revenues are coming in so we can move closer to those margins? Is that something which is still on the horizon?

Kedar Vaze Yes, I think what we are looking at is a sustainable or the baseline EBITDA and then what are we investing for growth. So, for European market, for example, with Germany and Manchester expected to come in early next year, we would have done a full investment on the development, so we will not have any development centre increase or growth in the future. So, we are now sort of fully invested in the Creation Development Centres in Europe after this set of investments. We are starting American journey with the small investment. We will have to ramp up there as business grows, we will ramp up some investments in the US. But European business, which is roughly 45 million, 50 million this year, with the Germany development center, we would be kind of at a full strength. So, there will be no step up and step jump investments. Then we are looking at investment as we grow few people more, more account managers, things like this. Maybe some investments in the production facilities as we are reaching the limit of our current facilities. But there, right now we have taken big jumps in the investment quantum. So, roughly Rs. 25 crore to Rs. 30 crore annualized basis, extra investment we have made this year. So, that kind of big jumps will not be there in the near future.

Madhav Marda Because that's a fairly large number, right? Because let's say our first half we did about Rs. 1,010 crore and we've invested about Rs. 10-15 crore extra, which means almost 100-150 basis points of margin. It's a front-ending some OPEX, right? Is that the way we should look at it? Otherwise, margins are closer to 18% already for us.

Kedar Vaze That's correct.

Moderator Thank you. The next question is from the line of Abhijit Akella from Kotak Securities. Please go ahead.

Abhijit Akella First one is just on the revenue growth side, I missed a little part of the call, but I heard you say that second half, we should be at least (+15%) in terms of revenue growth. Just wanted to confirm that, that is indeed the expectation. And then for next year, as these new Creative Development Centres in Germany and UK etc. start to pay off, how much of an incremental contribution can we expect from them? And will that be over and above the 12% growth we normally talk about?

Kedar Vaze Yes, so the Development Centres in Germany and Manchester will not really create much direct revenue in this year. They have started now. We are already seeing benefits of having the cent in terms of quick turnaround on certain projects which we are already making and so on and so forth. So, there is benefit but if you say specific large clients or new geography revenue it will take at least another 6 to 8 months before any meaningful revenues will start to come in. On the Revenue guidance like we said, second half is expected to be better than the first half. I would expect to reach around 2,100 or something like this number, 14% odd for the full year. This is a subject that no major changes happen between now and the end of the year.

Abhijit Akella Understood, thank you. And with regard to the CAPEX progress and the insurance receipts, the insurance claim, we've done Rs. 47 crore of CAPEX in the first half as per the cash flow statement. What's the full year number we should look at? Does that include the Vanavate growth as well as the Vashivali rebuild? And how do we see that sort of trending as we reach closer to yearend or maybe even next year?

Kedar Vaze So, I think in the second half, we would have roughly around Rs. 50 crore and the first half next year, another Rs. 50 crore of CAPEX, out of which almost Rs. 100 odd crore would be the reinstatement of the Vashivali factory itself. So, I expect a new CAPEX of roughly Rs. 50 crore to Rs. 60 crore which will end up with two factories which we are building at this point. So, incremental CAPEX after insurance reimbursement would be roughly Rs. 60 crore. That's the expectation. We are also looking at the next two years of quite heavy investments in terms of manufacturing capacity in Europe, we are reaching 75%-80% plus utilization in our current plants. We expect at least 18 months to 20 months of time for building the new facilities. So, I am looking at something like a Rs. 50 crore additional outlay, the second half of next year which would be in terms of European factory building and capacity building. Given good strong double-digit growth, we may look at another factory in Europe to de-risk and have two factories with sufficient capacity. So, there is sort of a blueprint of around Rs. 45 crore to Rs. 50 crore investment in a factory. We are clearly looking at two in this year and next year, in addition to the Vashivali rebuilding. And we may look at one more factory in Europe in the year after. So, in between now and sort of three years, we are looking at 3 to 4 factories being built across this. In that two-year period, we will close our factory in Mulund. So, there will be an OPEX saving in terms of lease and the old factory which we are operating in Mulund will be closed down.

Abhijit Akella This will be about, for 4 factories will be about Rs. 200 crore of total spending, right? In addition to the normal annual CAPEX, we have Rs. 50 odd crore.

Kedar Vaze The normal CAPEX is less than Rs. 10 crore-Rs. 12 crore-Rs.15 crore for what we call maintenance CAPEX. That will be lesser because we have now the new Development Centre investment already done.

Abhijit Akella And just one last thing before I get back in the queue. On the global account that we have won, is that scaling up as per our original expectations? We had mentioned about $ (+10) million possibly for this year. So, if you could please just update us on that. And one other thing was just in the context of all these antitrust lawsuits and raids against global MNCs in Europe and the US against the likes of Givaudan and the others, is that sort of helping open up doors for the next year players like ourselves to win business in these geographies?

Kedar Vaze On the global account, we are trending as expected. So, we are on track. To your question on antitrust investigation etc., yes, that does open up opportunities for mid-size and other players like us.

Moderator Thank you. The next question is from the line of Prakash Kapadia from Spark PMS, Please go ahead.

Prakash Kapadia Two questions from my end. You mentioned in the presentation and in your opening remarks there is a shift in product mix which has led to a fall in gross margin. So, can you explain this in more detail?

Kedar Vaze Just to explain that more, I think the 1st Quarter of this year, due to the fire incident, we prioritized orders and execution towards the higher margin products and some of the lower margin or some of the backlog went into the 2nd Quarter. So, roughly Rs. 25 crore-Rs. 30 crore of business was carried over to the 2nd Quarter that was at a lower margin. Therefore, the composite margin of 2nd Quarter is muted. Typically, the H1 gross margin, is representative of the business as a whole. So, there is no backlog carried forward from the H1.

Prakash Kapadia So, that Q2 some of the executions happened, that is why we are saying that, understood. And you also mentioned about the inventory built up in the PPT and in the opening remarks. So, how do we relate this built up at a time when domestic demand is soft. So, is there more visibility from the global MNC account or some new accounts, which has led to this built up. And, as of now, you also mentioned the plant rationalization earlier there were lesser plants. So, that includes global and domestic or is it just domestic the increase in plants?

Kedar Vaze The plant includes all manufacturing for all customers. The inventory buildup has been quite high. At this moment, the raw material prices have remained soft. So, we have been able to build up inventory at good pricing. We expect to start to control this inventory as we speak. As you can understand, the major efforts in the first half of the year were to stabilize production and ensure availability to all the customers as a result of the operational disruption. We are in a new normal where the factories are producing and there is a warehouse. So, all the alternative facilities are up and running and they are fully producing in time to all the customer demand. Now in the new normal, we will start to focus on the inventory and to reduce the overall inventory to normal levels.

Prakash Kapadia So, as on year end, we should estimate a lower inventory and maybe a lower debt. Is that right understanding?

Kedar Vaze On the debt piece, I think we expect some amount of money to come in from the insurance between now and end of the year, probably December-January we expect Insurance payout to start to flow in. So, yes, we will have lower debt in the end of the year. Also operationally we are reducing the debt as we generate free cash flow month on month plus we have the expectation of the insurance payout before the end of the year.

Moderator Thank you. The next question is from the line of Jatin Damania from Swan Investments. Please go ahead.

Jatin Damania Basically I just wanted to confirm whether our growth guidance for FY26 and 27 remains intact in terms of topline and margins.

Kedar Vaze Yes.

Moderator Thank you. The next question is from the line of Rishabh Shah from BugleRock PMS. Please go ahead.

Rishabh Shah How is our team divided between Perfumers and Flavourists? How many of these Perfumers and Flavourists you have because they are the most important people we have in our business and how many have you added these Perfumers and Flavourists in the past five years?

Kedar Vaze So, we are one of the few companies that trains the Perfumer and Flavourist in house. We take roughly 3 to 4 people as trainees every year and we continue to train them, kind of build-in-house Perfumers. We have more than 20 Perfumers and adequate Flavourists for the business. In terms of Fragrance and Flavours, we are sort of 75% Fragrance and 10% flavour. So, in that ratio adequate Perfumers and Flavourists are with us.

Rishabh Shah And sir how are these ratios compared to the Givaudans and IFFs of the world?

Kedar Vaze They are very similar. So, the Givaudan, IFFs of the world would have 120-130 Perfumers worldwide, we have around 20. So, it's comparable.

Rishabh Shah Sir, you said that we are adding, and we are training these Perfumers. So, from where do you pick up these Perfumers and Flavourists, sir?

Kedar Vaze We hire people in our company from various institutions, chemists or science graduates and we have also in our VG Vaze College a course called Postgraduate Diploma in Perfumery and Cosmetic Management. This course also has around 24 students every year. So, this is input for us and we take 7-8 trainees from this every year.

Rishabh Shah My next question is, so the key moat of our industry is the stickiness of the customer. So, has there been any instances in the past that the FMCG player has changed their supplier? If yes, then what could be the reason?

Kedar Vaze So, the change of supplier is quite low in our industry. It does happen, but it's quite low. I cannot give you any specific instances on the top of my mind, but the instances are quite low.

Rishabh Shah Sir, has SH Kelkar been changed to like if there was supplier A to some big customer and has SH Kelkar taken the place of that supplier? Has that been in the past? Has it happened?

Kedar Vaze It does happen but it's not our main growth strategy is not replacing somebody else. Our growth strategy is to take business from new products and new geographies. When we are particularly in the new markets, we are replacing, or we are taking part of the market share from some of the existing companies. It does happen but it's quite low.

Moderator Thank you. We will take the next question from the line of Vignesh Iyer from Sequent Investments. Please go ahead.

Vignesh Iyer The first question is more on to the utilizations part of it. Can I understand what is our utilization percentage in H1 as of now and this Rs. 200 crore total CAPEX that we are going to spend over this year and next year, what will be the percentage addition that would come to our total capacity post that and if you could also help me understand the timeline for the same?

Kedar Vaze So, right now, we are at more than 85% utilization of our facilities. With the rebuilding of the Vashivali and Vanavate factory, we will add almost 2x additional capacity. So, that is on the domestic. And we are proposing to add one more factory which would give us roughly 50% additional capacity in the European context.

Vignesh Iyer So, if I got it right, you will add 150% more to what it is right now, right?

Kedar Vaze So in India we will add 200% to what it is right now. In Europe we will add 50%.

Vignesh Iyer And what is the timeline for this, for the factories you start?

Kedar Vaze For the next two years.

Vignesh Iyer And one more question, I see your European part of the performance where we have seen an increase in gross margins but there seem to be some impact on the EBITDA margin part of it. Can I understand why the EBITDA margin on YoY basis is lower despite increasing gross margins?

Kedar Vaze So, basically there is no specific change. The EBITDA percentage is 20.5 vis-à-vis 21 last year. So, it's very marginal on the overall growth of 11.5%. So, there is no change in the business or like-for-like profitability of the company in European operations.

Vignesh Iyer Yes, but your margin, your gross margins have gone from 54% to 57.5%. So, that is a 350-bps improvement. But our EBITDA has gone down by like 70 bps. So, net-net 420 bps down in EBITDA.Is that understanding right? So, is there any one-time expense involved in that?

Kedar Vaze This is purely a product mix issue. When you look at the gross margin, you look at the product level. But when we have smaller batches, then our net margin is the same. So, this just shows you that the growth has come from smaller and newer clients.

Moderator Thank you. The next question is from the line of Bharat Sheth from Quest Investments. Please go ahead.

Bharat Sheth You said that we have spent around Rs. 10 crore on opening of this new CDC center. Is that correct understanding?

Kedar Vaze Yes, sir.

Bharat Sheth So, in addition to that also we have incurred Rs. 10 crore all because of this fire incident. So, Rs. 20 crore additional, I mean one kind can we attribute to first half?

Kedar Vaze That's correct. I think out of that, the loss of profit due to fire incident has been added back in the adjusted EBITDA.

Bharat Sheth So, in second half this Rs. 10 crore which was on the fire incident will not be there. Is that a fair understanding? Only Rs. 10 crore will be reported.

Kedar Vaze No, it will be there and it will be exactly as the same as the first half.

Bharat Sheth So, in first half we have reported 15.81% kind of EBITDA margin. So, second half will be in the same range?

Kedar Vaze Yes, I expect it to be in the same range, slightly better.

Bharat Sheth Coming to this new factory that we were planning, when we do expect to start, one, we were expecting somewhere in the month of March. So, when do we expect Vashivali, when we can really come up?

Kedar Vaze So, the new factory in Vanavate is expected to come up in the 1st Quarter calendar next year, so 4th Quarter. Vashivali which is the rebuild of the factory will still take another 9 months to 10 months before it is rebuilt.

Bharat Sheth And then Mulund will be set off post-Vashivali recommissioning, correct?

Kedar Vaze That's correct.

Bharat Sheth With this, I mean, as you were earlier alluding that overall inventory will also come down with this two new factory starting, I mean, we are working on which so far is so kind of efficiency. So, how much inventory, say, end of the FY26 really can come down?

Kedar Vaze So, I think the absolute value of the inventory, I don't expect it to come down dramatically, but the sales will ramp up another 10%-12%-15%. So, there automatically the stock will come down. DSO will reduce to around 135 days.

Bharat Sheth And secondly because of this, as we understand, the large global MNC account has also a lower gross margin. So, is it possible to understand what kind of impact that is there in this quarter particularly?

Kedar Vaze So, there is no impact of that. The gross margin, what we have is composite average, including the global account. So, 45% is including the global account.

Bharat Sheth And we expect to remain at 45% level in second half of the year.

Kedar Vaze Yes.

Bharat Sheth To understand, I mean, these large, small FMCG accounts, MSME accounts, where we are ramping up and Indian FMCG, we are seeing some softer growth. So, is there differential in the profitability between these two business?

Kedar Vaze Not substantial, there will be 1-2% differential in the type of business, the small versus mid and large. Product-wise also there is differences, but in average there is not much difference. As you see the smaller accounts you will see a higher gross margin but there will be more overhead and operating costs. Larger accounts, the gross margin is lower but the net operating cost to maintain and produce that product is also lower.

Bharat Sheth And sir, if you can give some little more colour on insurance claim, the kind of a conversation we have with the insurer. So, how much do we expect to receive in this particular quarter and next quarter?

Kedar Vaze So, we have filed the claim, it is in the process. Final claims we will get in with the insurer any time now. And we expect by December-January substantial payments to start to come in. The plant and machinery CAPEX reinstatement will only happen once we have rebuilt the plant. So, that is a reimbursement of the insurance amount.

Bharat Sheth So, first time we are expecting around Rs. 100 crore kind of a payout from the insurance. Is that clear understanding?

Kedar Vaze Yes, so the inventory amount should be paid-out first and the CAPEX amount as we incur the CAPEX the insurance will reimburse us at the reinstatement basis.

Bharat Sheth And now, with this kind of an increase, Rs. 20 crore kind of additional expenses that we have which may not be there, but out of Rs. 20 crore revenue will start kicking in. So, what kind of a, I mean while looking to the next three-year target of 20% EBITDA margin, we can expect the improvement?

Kedar Vaze So, we are at around 16% EBITDA margin with the full investment of new growth areas which are not contributing any revenue at the moment. So, this Rs. 20 crore is probably a full year basis, Rs. 30 crore of new investment will then start to generate additional revenues that will take 1 or 2-years' time. So, effectively we are today at the 18.5% EBITDA minus the additional investment of 2% odd or which we are putting for new growth market.

Moderator Thank you. The next question is from the line of Parth Shah from Tara Capital Partners. Please go ahead.

Parth Shah Firstly, I wanted to know the contribution of mid and small customers that you mentioned. I missed out on that.

Kedar Vaze The growth rate has been higher on the smaller and global account. So, it is kind of 40% of the growth has come with small and mid-sized accounts and 40% has come from global accounts.

Parth Shah And secondly, you mentioned about the impact of administration change in the US and also some export opportunity. So, if you could just repeat that because I missed those. Sorry for the inconvenience.

Kedar Vaze I have not said anything further. We just need to wait for the actual data and what the new administration does undertake, tariffs, how they are implemented, on what product, which country and so on and so forth. But I see there an opportunity for India as a whole to take some business away from the Chinese suppliers in this kind of overall global supply chain. So, that's an opportunity which we are weighing as an additional area for growth.

Moderator Thank you. Ladies and gentlemen, we will take that as the last question for today. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Kedar Vaze Thank you. I hope we have been able to answer your question 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 for taking the time to join us on this call.

Moderator Thank you members of the management. On behalf of S H Kelkar & Company Limited that concludes this conference. We thank you for joining us and you may now disconnect your lines. Thank you.

-End-
