Keva

June 28, 2019

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

Scrip Code: 539450

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

Scrip Symbol: SHK

Dear Sir/ Madam,

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

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are enclosing the transcript of Q4 & FY 19 earnings conference call for investors and analysts organized by the Company on Tuesday, June 11, 2019 at 11.00 AM IST.

You are requested to take the same on record.

Thanking you,

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

S H KELKAR AND COMPANY LIMITED MUMBAI 400 080

Deepti Chandratre
Company Secretary & Compliance Officer

Encl: As Above

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SH Kelkar and Company Limited
Q4 & FY19 Earnings Conference Call
June 11, 2019

Moderator: Ladies and gentlemen, good day and welcome to the SH Kelkar and Company Limited Earning 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 telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Anoop Poojari from CDR India. Thank you and over to you Mr. Poojari.

Anoop Poojari: Thank you. Good morning, everyone and thank you for joining us on SH Kelkar and Company Limited's Q4 and FY2019 Earnings Conference Call. We have with us Mr. Kedar Vaze - Wholetime Director and CEO; Mr. B Ramkrishnan – Head, Strategy and Mr. Shrikant Mate – EVP and Group CFO of the company.

We will begin the call with the Opening Remarks from the Management, following which we 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 maybe 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 this investor call. Before we begin, I would like to say that we regret the inconvenience caused to you all due to rescheduling of our earnings call. Our board meeting was scheduled on 10th of June to consider acquisition of the remaining 49% stake in Creative Flavours and Fragrances SpA, Italy and to consider buyback of equity shares. We thought it would be more enlightening to interact with you post the board deliberations on the same as well as share a better view on the upcoming quarter post election results.

As we have shared with you earlier, we had entered into an agreement to acquire the Italy based Creative Flavours and Fragrances in January 2018. The Board had already approved acquisition of 100% share capital of CFF over a two to three-year period. In the first tranche, SH Kelkar and Company had acquired 51% stake in 2018. The remaining stake was to be acquired within three years. The Board at its meeting held yesterday has now approved the acquisition of the remaining stake during the second half of the calendar year 2019. The acquisition will enable us to increase our presence in Fine Fragrances and Fabric Care segments and help SHK to make some cutting-edge products, particularly in the field of biodegradable fragrance and fragrance systems.

The Board has also approved the buyback of SHK's fully paid up equity shares of face value of Rs.10/- each at Rs.180/- per equity share through the "Tender Offer" route. The total amount of the buyback size will be a maximum of Rs. 59.40 crore. The company proposes to buyback 33 lakh equity shares at the offer price representing 9.96% and 7.7% of the fully paid up equity share capital and free reserves. Overall, the Board believes that this is an efficient way to distribute cash back to shareholders, especially the smaller shareholders for whom a certain proportion has been reserved. The promoters also intend to participate in the Tender Offer; however, they are not going to subscribe to more than what is being allocated to them as part of the offer.

We would like to highlight that the buyback at this stage signifies our confidence on both the balance sheet and our future cash flow over the medium to long-term. Although the performance in the short-term may not be linear, we have already committed funds for all our investment plans from the medium-term perspective including the Mahad facility, Anhui acquisition and the funding for the Creative Flavours and Fragrance acquisition. With these major investments behind us and with the need for further capex being low, we believe we will generate healthy free cash flows that can be distributed to shareholders while maintaining an optimum debt-equity ratio on the balance sheet going forward.

This has been yet another challenging fiscal year for us. The demand environment witnessed slowdown across fragrance and flavours particularly in the domestic market. Furthermore, we witnessed a softening of growth in broader FMCG market in the last part of the year as consumption and volumes dropped to multi-quarter lows, led by decline in demand in urban and rural areas. Weakened demand in FMCG in turn also affected our domestic Fragrance performance during this period.

As we had indicated earlier, the global Fragrance and Flavour industry witnessed unprecedented levels of uncertainty in raw material supply in 2018. This led to significant inflation across our raw material basket. To mitigate this cost pressure and partially preserve the margins, we proactively passed the price increases to our customers. These price increases considerably impacted demand particularly from some smaller market players during the year. Our internal study to review the market trend across various customer segments, post demonetization and GST implementation, revealed a small structural shift in demand and consumption towards larger and mid-sized players, leading to notable decline in business from smaller accounts. We believe that this would be on account of consolidation process that began with GST which also got accelerated due to the raw material inflation. Amidst this, our large customers continued to show a strong growth in excess of 20%, if we look at top 100 customers. In fact, we have gained higher wallet share in large key accounts during FY19 and delivered healthy growth rate in this segment.

On the whole, we believe our revenue base has now been reset to a large extent with smaller customers now contributing lesser than earlier. With the first two months of the quarter behind us, we are witnessing healthy traction in all our mid and large customers. We are also preparing to engage with large global MNC customers; however, this may come at lower gross margins but the impact on the PBT margin will be negligible since the operating costs of this business are substantially lower than our average business. This change would also lead up freeing up inventory and cash flows. Our business model will continue to remain differentiated to global peers as we will continue to work with both large as well as mid-sized and small FMCG players across the region. We have potential customers who can grow much faster than the industry as new players or new brands. We believe that going forward we will have opportunities to accelerate engagement with the larger and mid-size accounts and further increase our wallet share with these accounts.

Coming to the operational developments, I am pleased to share that in month of May, we have reached optimal utilization levels at our Greenfield manufacturing facility at Mahad. Operationalization of this facility will improve our raw material availability and further help cost efficiencies. On 24th May 2019, we also inaugurated our Creative Development Centre (CDC) in Singapore which is a development centre for fabric related products such as detergents, liquid detergents, fabric softener. The centre together with our earlier acquisition of Tanishka completes our offering in the technology area of fabric via encapsulation and other technologies which we have developed in-house.

I will not read through the numbers but let this come out through the Q&A if anyone has a specific question.

Overall longer-term perspective, we continue to see immense potential in our business and accordingly we have undertaken several measures to strengthen relationships with our client base. Our robust product portfolio and new accounts will increase focus on working capital and operational cost efficiencies. We believe that this will support our earnings growth momentum in the coming year. On the whole, we look forward to delivering steady performance from 2020 onwards.

With this, I would request the moderator to open the forum for any questions or suggestions you may have.

Moderator: Thank you very much Ladies and Gentlemen, we will now begin the question-and-answer session. The first question is from the line of Prakash Kapadia from Anived PMS. Please go ahead.

Prakash Kapadia: On the buyback, last three years borrowings have increased from around Rs.85 crore to Rs. 275 crore. Should that not have been used to repay the debt rather than going for the buyback? So, that sounds confusing to me. That was the first question. In your opening remarks, Kedar, you mentioned about slowdown especially in India, volumes looking at a multi-quarter low. So, how does the growth come back, what are the leading players saying now, given election is over, how will volumes come back and what is the confidence you are getting in the domestic business?

Kedar Vaze: These comments are pertaining largely to last year. We have seen, especially after December, lot of changes in the demand from, particularly smaller segments and smaller customers. As we have crossed two months of Q1 FY20, we have seen post elections, there has been a very strong revival in the new launches. So, we have multiple new wins, products already being launched in the market and unlike previous two years, where we had a long time gap between the win and the actual commercialization, we are seeing a heightened momentum. Whenever there is a new win, within two to three months, the product is in the market. So, I see this is the normalcy of new win and trajectory of FMCG that we are used to, historically which was unlike the last two years. I also believe that the inflation relating to raw material force majeure, which has been problem for the industry last couple of years, has stabilized. We are seeing early signs that the availability will be easing out and this is a combination of easing out of cost pressures and the momentum, post elections. So, we believe we are in a very strong growth trajectory, going forward. To answer your question on the buyback as well, I think we have a great confidence on our business. We see a free cash flow and then you look at the cash profits made in the previous years and going forward, we believe that we will have a strong free cash flow business from hereon.

Prakash Kapadia: Historically, Kedar, I remember the regional and smaller players, who are large part of our Fragrance business and the larger Indian players and the MNCs were a very small portion. So, as you mentioned increasing wallet share, so when do we see higher growth trajectory because some of the smaller and regional players or sub-regional players, which you had buffeted them in D&E segment, if they are not growing and A&B category are growing, so when does this translate into higher revenues on the domestic side for us?

Kedar Vaze: For example, we had an analysis of customer mix last year, I think the top 60% of our customers have grown at 20% plus. It is the specific segments, specific categories of products and specific customers, where we have seen decline. So, on a broad base, unfortunately, we have seen very small growth numbers but within the detail, almost 18% of our customer mix has continued to grow in the last year and we see good signs that they continue to grow beyond. So, I do not believe that there is any long-term problem in the shift in the customer mix. There has been process that has been happening YoY when some of the smaller brands or the smaller customers stop their business and the business market share goes to medium and larger customers. GST and price inflation have only accelerated that process. We see this churn happening much faster in the previous years. As we speak, we do not have too many further dependencies on smaller customers that would lead to any degrowth. So, we have reset the base last year, we are now in a position, where we can grow linearly and exponentially on the customer base that we have.

Prakash Kapadia: That should translate into revenues in the coming quarters. There should be not a lag effect is what I was trying to understand in terms of our top line growth.

Kedar Vaze: I would say a couple of months since the plans of the product launch have been on hold for the election in a way to kind of look at more aggressive or less aggressive growth plans for the next three to five years. I think the activity level on the development and product launches has now picked up post elections. So, the first couple of months of this year, we were kind of waiting to see the direction and as we speak the wins, the launches and the project pipeline have substantially increased from two previous quarters.

Prakash Kapadia: So, second half onwards we see momentum, is that the right assessment?

Kedar Vaze: We are already seeing momentum and now on an average on a quarterly basis how much it translates this quarter, next quarter, we will let that play out. We are already seeing the product pipeline, new win pipeline jumping up compared to the previous two quarters.

Moderator: Thank you. The next question is from the line of Dharmik Prajapati from Prospero Tree. Please go ahead.

Dharmik Prajapati: My question is why the promoters are participating? Does this Rs.180 buyback price reflect the company worth?

Kedar Vaze: I think the company share price is undervalued. That is why the buyback has been initiated and typically buyback also will be by tender offer. So, small shareholders can also participate in the buyback.The price is at the same price as the IPO and it is our belief that the long-term story is still very much intact. As to why the promoter group is participating, we will participate to the same proportion, so our stake would remain almost the same post the buyback.

Moderator: Thank you. The next question is from the line of Nilesh Soman from Keynote Financial. Please go ahead.

Nilesh Soman: Is there any product launching in the next two quarters? You said that there is a demand slowdown in the domestic market. So, whether the same story is continuing as there are changes in your customer base?

Kedar Vaze: No, we have not changed our customer base in anyway. There has been differential rate of growth in the customers, some have grown faster, while some have grown slower. As regard to the domestic demand, this is the commentary on last year. As I have already mentioned, that we are seeing faster momentum of new wins and new launches. So, I believe that we will be on a faster growth trajectory going forward.

Nilesh Soman: You are launching your new products – so are they for the smaller clients or you are targeting luxurious clients?

Kedar Vaze: Across the board, including premium segment such as Fine Fragrances and mass market segments of the product.

Moderator: Thank you. The next question is from the line of Saravanan Viswanathan from Unifi Capital. Please go ahead.

S Viswanathan: Given our current capacities, including the newer Greenfield capacity, what is the peak level of revenues that we can target?

Kedar Vaze: Unlike sort of a fixed product company, our capacity is utilized across product mix. In general, 15% rise in capacity utilization results in 3-4x increase in the revenue as we get more and more premium products in the bucket. The capacity utilization on the current price basis is that we are around 45%. So, if we utilize on 100% basis, it should be twice. Typically, 15% increase in volume, we almost do twice the revenue because value in premium products and new products are often at a higher price than the previous generation products.

S Viswanathan: In the last two years, how many new premium products or the new products have been launched and how has been the response?

Kedar Vaze: We continue to make roughly 400 designs in a year. Last year, the number of products that have been launched were lesser. I think we continued to do our work and the designs were ready and approved at various stages. But they were not launched and commercialized last year to the same extent. So, normally we end up with roughly 400 new products in the marketplace.

S Viswanathan: This level of customized design happens with close interaction with the clients, is it?

Kedar Vaze: Yes, each product, each variant is separately developed together with the client.

S Viswanathan: Part of the slowdown also is taking into account even both western world as well as India, people started using more of natural products rather than chemical based products?

Kedar Vaze: The natural trend is of course local trend, it is also in India; however, in Fragrances also we have seen the same trend, in fact, that is premiumization trend, where we are selling natural fragrances to the similar set of clients and that is a general trend of premiumization, which we are also following.

S Viswanathan: So, we have the expertise to offer the natural variants?

Kedar Vaze: Yes, we have a full range of next level natural fragrance and flavours products ready.

S Viswanathan: How will be the taxation in the next two years? Because I guess tax rates have become lower this year.

Kedar Vaze: With the new government post-election, we may see a differential tax rate or some differences but this year's tax rate is around 29 - 30% is what we should plug in as the base rate going forward.

Moderator: Thank you. The next question is from the line of Karthik Mehta from IDFC Mutual Fund. Please go ahead.

Karthik Mehta: Firstly, on the new raw material in-house manufacturing, with this Mahad facility running in fully optimized capacity, what sort of import dependency are we still having and what can be the impact on the margin because of this in-house availability?

Kedar Vaze: I think the impact on the margin probably is about 1% of the sales, 100 bps improvement with Mahad facility. What we also see in the Mahad facility is that 75, 80% of the revenue is exports and that substantially mitigates the risk of currency fluctuation, which was one additional factor which contributed to inflation last year. So, as far as currency fluctuation is concerned, we are now at a very well balanced cash flow scenario month-on-month, where we have substantially increased our exports out of India operations with Mahad facility. So, that is one big positive. It has been fully operational. The cost advantage between the cost of manufacturing in Netherlands and India will come through as we further optimize and it is already starting to show similar efficiencies of production. And we believe this being a new plant we can further ramp up the capacity and further improve the cost position as we proceed because we have put all the learnings from the last 40-years of manufacturing in the new plant design and over a period of time, we should see further efficiency improvement in this plant.

Karthik Mehta: In your opening remarks, you mentioned about large top-100 customers growing. So, I just wanted to know the bifurcation between the large, mid and small in terms of the contribution to the domestic revenue and what is the contribution of the top-100 customers?

Kedar Vaze: Top-100 customers contribute roughly 35-40% of our domestic Fragrance revenue. Small is 20%, which de-grew substantially. I do not have the full breakup data with me to share. So, large 40% basically had a net impact of plus 10%, and last 20% had a net impact of -7 to -8%.

Karthik Mehta: Small is stabilizing, large anyways is doing decent and mid you are saying also is gaining the momentum plus you said that couple of new products you have developed and you mentioned a very important point in your beginning remark that you have started talking with few of the large MNC customers, where the volumes will be substantially higher, hence the gross margin may not be good but PBT will be more or less according to company averages. So, when we can see the MNC volume start contributing into numbers?

Kedar Vaze: I think it is early to count them at the revenue but we have been working with various global MNCs with specific strategy and target based on our new molecule program which is now 7th - 8th year, we have sufficient bandwidth in terms of product know-how to go to that global MNC brands with proposals.

Karthik Mehta: But this is for the Indian operations, right?

Kedar Vaze: This is both India and outside India.

Karthik Mehta: So, in your entire conversation so far, you have used words such as 'strong', 'robust', 'significant' regarding the revenue momentum as well as some improvement in the margins. So, can we say that FY19 was the worst year since you joined the company and you believe that we have seen the worst behind and probably from FY20 onwards, we will see sharp improvement in the numbers?

Kedar Vaze: That is a good assessment of what we have been putting out. I think I will agree to that FY18-19 and the last part of FY17-18 with the force majeure on raw material was one of the worst periods for the industry as a whole and we were not out of that. I think that worst is behind us.

Karthik Mehta: On exports front, if you can talk about both on the fragrance and flavors and how much growth are we looking in exports?

Kedar Vaze: Last year, we also talked about one-off set-back in 'Orange business' where we have declined to that set of business. If you take out that one-off, we have continued to grow both the flavors and the export fragrance in excess of 14 - 15% last year itself and we see no reason why we cannot sustain and continue that momentum.

Karthik Mehta: You had one-off related expenses as well in FY19 because of the relocation from Netherlands to Mahad and other things. So, what was the amount and I am sure that will not be repeated in FY20?

Kedar Vaze: I think the amount was about Rs.4 crore for last year. We would have additional some expenses this year depending on the final business plans for the next three to five years. But that cost we have taken in our budget and taken that base line cost and there would not be any substantial capex this year. So, we would see that there will be tight management.

Karthik Mehta: So, no major capex at least for the next 12-15 months?

Kedar Vaze: The acquisition of CFF, which is our next large investment. We are not having any additional plans of capital investment. It would be two years of consolidation.

Karthik Mehta: How much amount are we going to spend for that?

Kedar Vaze: Second tranche is in the agreement of €18 million.

Karthik Mehta: So, our debt is not going to go down in that case?

Kedar Vaze: Overall, we are comfortable with the current debt-equity level. We will try and not exceed 2.5x Debt-EBITDA in a worst situation scenario and try and maintain it as we continue to grow and invest further in the range, very close to 2.5x of EBITDA at the Debt level.

Moderator: Thank you. The next question is from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.

Chirag Dagli: Can you split the FY19 sales of Fragrance between ingredients, formulations and domestic export?

Kedar Vaze: We do not have a specific breakup of the ingredients. Overall ingredients is roughly 30% of Rs. 1,000 cr, that is Rs.300 crore.

Chirag Dagli: How much in FY'18?

Kedar Vaze: Rs.250 crore of ingredients was in FY18. The number will not tally because we have internal company, so the reported external numbers and internal numbers there is a gap of in-house consumption.

Chirag Dagli: This is not what you sold outside; this is what you effectively produced at net market price?

Kedar Vaze: Internally and outside, both.

Chirag Dagli: So, this is the total? What will be the third-party?

Kedar Vaze: It is bundled together with the Fragrance. So, I do not have a specific breakup of the ingredients but 20% in-house and 80% third-party is the broad breakup of ingredients.

Chirag Dagli: The FY18 annual report for the PFW sales indicated Rs.175 crore in Netherlands. So, Rs.250 crore is what you totally as a company produced and consumed internally and out of that, PFW was Rs.175 crore, the balance would have been in India. Is that understanding right?

Kedar Vaze: That is right, Rs.175 crore is previous to the last year and there the ingredients of Rs.175 crore of Rs.250 crore, would be exports.

Chirag Dagli: Balance Rs.75 crore is in India ?

Kedar Vaze: Both in-house consumption and India sales. These granular details you can also write an e-mail to the CFO, so we can send out the details.

Chirag Dagli: When you said that in May, the ingredients facility is now having optimal utilization versus the March quarter, so what is the change that you have seen in May versus the March run rate?

Kedar Vaze: At March quarter, we were on an average 35% plant utilization, this quarter on an average, we expect it to be in excess of 75% plant utilization.

Chirag Dagli: To just put things in perspective, all of your Rs.175 crore in Netherlands can now be manufactured out of India on an annualized basis?

Kedar Vaze: That is correct.

Chirag Dagli: You mentioned your new molecule sales effort is now 7-years old. How much those new molecules or patented molecules sort of contribute to the overall sales?

Kedar Vaze: Patented molecules are not sold as such. They are part of the internal design of fragrances. As of last two years, we have average of 5% value of sales internal to the company.

Chirag Dagli: 5% of sales or let us say Rs.50 crore?

Kedar Vaze: 5% of sales revenue of new products is basically value of the internal consumption.

Chirag Dagli: So, this includes some or the other molecules, which is patented?

Kedar Vaze: That is right.

Chirag Dagli: For last three years' gross margins have also come off as well as EBITDA margins have come off meaningfully. As you look at this year which is more stabilization kind of a year, where do you think EBITDA margins can be for FY20 given whatever we have seen, you have talked about 100 basis points improvement in gross margin, is it on an overall basis for the company?

Kedar Vaze: I think we should restore back our EBITDA levels to between 18-20%. This is our long-term guidance and we continue to keep that as our benchmark.

Chirag Dagli: That includes other income?

Kedar Vaze: That includes operational other income. There are some operating other incomes, which we get as a byproduct or scrap or other sales. We do not include the other income, where gain in asset sale or capital gain or non-operating income. When we talk about 20% EBITDA on operations, we will not consider the non-operating income and non-operating expenses.

Chirag Dagli: In terms of your debt, what is the effective interest cost that we should assume?

Shrikant Mate: Approximately 9%.

Chirag Dagli: This is a mix of local as well as international or all of it local?

Shrikant Mate: Mix of domestic as well as FX borrowing.

Chirag Dagli: So, this Rs.6 crore that we did in Q4, does it have an element of loan mark-to-market sir?

Shrikant Mate: Yes, that includes expenses for mark-to-market, finance cost includes that.

Moderator: Thank you. The next question is from the line of Ajay Bodke from Prabhudas Lilladher. Please go ahead.

Ajay Bodke: So, in the last conference call, you had mentioned about the ramp up in Mahad facility and also mentioned about sort of the savings that could accrue from the Mahad facility. So, could you elaborate on what kind of savings do you expect to accrue in FY20?

Kedar Vaze: As we have mentioned on previous call, we anticipate relocating from Netherlands to India to have an operating cost saving of roughly €2 million in terms of all cost put together. The Mahad plant facility is up and running at this point to almost full operating efficiency. So, we would see the effect of savings in this full year.

Ajay Bodke: You also mentioned about consolidation in the year-end of the Italian business. So could you throw some light on that?

Kedar Vaze: As I mentioned upfront, we had a Board meeting yesterday to consider the acquisition of the Italian joint venture. To highlight, last year, the Italian company grew revenue by 18%. We have been substantially able to start working with them to drive synergies and put out products libraries and management team exchange of information. So, I believe we have a strong base out of Italy for European market as well as Fine Fragrances global, where we can leverage their position and premium product offering. So, without delaying this acquisition, the Board has recommended us to go ahead and acquire the rest of the 49% in CY2019.

Ajay Bodke: You are looking at 20% long-term guidance for EBITDA margin. So, this is over three to five years. What is the time period you have in mind for this 20% from the current 14.9%?

Kedar Vaze: I think the current 14.9% is below what we expected and I think the 20% guideline YoY for next five to seven years.

Ajay Bodke: Similarly on the return ratios, what are the internal benchmark that you have to achieve for the medium-term?

Shrikant Mate: As we have indicated in the past, we are aiming for return on capital employed ratio in the region of 22-25% and with our capex program majorly done and things stabilizing, we intend to get back into that region now.

Moderator: Thank you. The next question is from the line of Jai Doshi from Kotak Securities. Please go ahead.

Jai Doshi: At optimum utilization let us assume 75 - 80 or 90%, what percentage of your production will be consumed for captive purpose and what percentage will be sold externally, so what will be the impact in terms of revenue growth and what will be the absolute savings for what you will be consuming internally?

Kedar Vaze: There would not be a substantial impact on revenue or volume because of the Mahad facility relocation of the production from the Netherlands because it is a continuing business. Of course, raw material availability helps us to push and grow this business faster. But this year we would have the same volume as that was being produced and sold out of Netherlands. So, we would not look at any substantial jump, maybe 10 - 20% jump over previous years both in terms of internal consumption as well as external sales. The advantage which we now have with the operations being in India is there are synergies between the fragrance and chemical ingredient production, which we can take up and further reduce the operating cost of the ingredients division.

Jai Doshi: Any absolute number of cost savings you like to indicate or should we just go with 1% savings?

Kedar Vaze: At the cost level, we should have an overall 1% saving and as I mentioned it would be an overall Opex saving of €2 million from the full production, part of it has been realized last year and part of it will be realized this year, but in totality between the relocation of the facility, we expect saving of €2 million in the operating cost.

Jai Doshi: Over and above the saving at COGS level?

Kedar Vaze: That is right.

Jai Doshi: You had incurred some one-time restructuring expenses of Rs. 5.5 crore in Q3 FY19. What was the number for the full year for Netherlands facility?

Kedar Vaze: We had a total of Rs. 4.2 crore of one-off cost for last year, part of it was in relation to the moving of the facility, we anticipate some residual amounts to happen this year with business strategy and the plan, going forward.

Jai Doshi: Any updates do you want to give on the raw material prices that you procure from BASF, they had lifted the force majeure, but prices have not come off at least when we discussed in the last earnings call?

Kedar Vaze: I think the force majeure is across, not only BASF, but various products which were in difficult scenario last year. I think by and large, it is eased. We have not seen particularly decline in cost for us since we were hedging via inventory and long-term contract, there is not substantial decrease for us but the general availability and the general trend towards new contracts is not at a higher level than before. So, we see that softening and it will play out over the next six, nine months to more or less long-term normalcy.

Jai Doshi: You ended the year at consolidated level 12.7% EBITDA margin and you have indicated that you want to get back to 18-20% range. So, what should we think about from FY18 perspective, if you can give us some sort of breakdown what are the tailwinds you have other than Tonalid that you have talked about and maybe non-recurrence of some one-off cost?

Kedar Vaze: I think you have mentioned in your question, FY18, I am just translating that is FY20, clearly Tonalid relocation, force majeure being removed from products, improvement in the demand outlook, may not be the immediate demand but the way forward and the expectation of growth going forward has already improved, which has meant better new wins and new product development which is happening at this moment. Across all our businesses, we are seeing significant momentum and we are very confident that FY20, we will have substantial improvements and more normal looking P&L for the year.

Jai Doshi: Any guidance you would want to give on the top line growth or any indicative broad range?

Kedar Vaze: We should be at a double-digit growth for this year, if not more.

Moderator: Thank you. The next question is from the line of Swarnub Mukherjee from Edelweiss. Please go ahead.

Swarnub Mukherjee: If you could give us a view on what would be normalized level of gross margin considering the fact that you are seeing a change in customer mix, the shift towards larger customer might squeeze gross margin, on the other hand, your raw material situation and pricing pressures have been improving, so where it would stand eventually?

Kedar Vaze: We look at a long-term gross margin around 43% range. This is where we see this kind of a new norm. Over a period of time, as premium products get launched, this will start to move up to 45% but on average consolidated basis, around 43% gross margin.

Swarnub Mukherjee: Additionally, on the stabilization in the raw material side, impact is because of primarily force majeure being removed or have you achieved any other further diversification in sourcing of raw materials?

Kedar Vaze: So, we are continuing to work with all the major vendors and surprising the industry. Since there is no specific one-off, this is a general trend where the shortages are now coming off with the lifting of BASF force majeure, so a lot of unwinding the shortage position to more normal levels.

Swarnub Mukherjee: On the overseas revenue, the run rate for both the Fragrance and the Flavour division in FY19 is around 14% growth. So, do you expect this to be a run rate going forward?

Kedar Vaze: Yes, we have a plan to maintain this growth rate since it is in line with our long-term plan.

Moderator: Thank you. The next question is from the line of Saravanan Viswanathan from Unifi Capital. Please go ahead.

S Viswanathan: What are the two key risks that you see to the volume growth assumptions that you have for the next two years?

Kedar Vaze: Coming off the last two years, where the major risk factors have actually played out for volume growth and revenue growth, gross margin erosion. I think the only major risk I see is that in the Mahad operations, it is still kind of five months old operations and we have stabilized and we are running it and to take care of any force majeure or one-off event in the operations, we have already started building reserve stock and keeping available material for our customers so that we maintain the regular shutdown and maintenance of the plant in a proper preventive manner, so that is the risk mitigation for this. But that is the only significant or substantial risk that I see in this year.

Moderator: Thank you. The next question is from the line of Ajay Bodke from Prabhudas Lilladher. Please go ahead.

Ajay Bodke: Our working capital has shown elevated trends. How do you foresee the working capital going forward in FY20 and FY21?

Kedar Vaze: Working capital has a combination of two aspects – One is the increased prices of the raw material. So, for the same volume of stock, I have been needing to pay higher amount plus shortages in raw material has meant that we have been forced to pay or are looking to pay the suppliers on early escalated manner. So, Payables where we have paid before our receivables. So, our sales growth and collection momentum has fallen behind and the cost increase and the payables have actually kind of lured the working capital in favor of increasing. As I mentioned, the raw material scenario has eased. We are starting to see more normalcy in payment terms in terms of our stock levels. We will look to bring them down in the coming couple of quarters and we are also seeing momentum on the sales side where the receivables are starting to come in. So, the March position in terms of working capital was in a very high position and we would look to bring that down over the next two, three quarters to normal long-term averages.

Ajay Bodke: You mentioned that FY20, the capex would be substantially lower. So, what sort of amount that we are penciling in for FY20?

Kedar Vaze: That would be in the range of Rs.10-odd crore.

Moderator: Thank you. Ladies and gentlemen, that seems to be the last question for today. I would now like to hand the floor back to the management for their 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 would like to know more about the company, please feel free to contact our team or CDR India. Thank you once again for taking the time to join us on this call.

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

-End-

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