June 06, 2022

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 22 Earnings conference call for investors and analysts organized by the Company on Tuesday, May 31, 2022 at 03:00 P.M. IST. The transcript is also available on the website of the Company.

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 400080

Rohit Saraogi
Company Secretary & Compliance Officer

S H Kelkar & Company Limited
Q4 FY 2022 Earnings Conference Call
May 31, 2022

Moderator: Ladies and gentlemen, good day and welcome to the Earnings Conference Call of S H Kelkar & 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 touch tone phone. Please note, that this conference is being recorded.

I now hand the conference over to Mr. Anoop Poojari from CDR India. Thank you, and over to you, sir.

Anoop Poojari: Thank you. Good afternoon, everyone and thank you for joining us on S H Kelkar & Company Limited's Q4 & FY'22 earnings conference call. We have with us, Mr. Kedar Vaze, Whole-time Director and Group CEO, and Mr. Rohit Saraogi, EVP and Group CFO of the Company.

We will begin the call with opening remarks from the management, following which we will have a 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, 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 afternoon, everyone and thank you for joining us on our Q4 FY22 earnings call to discuss the operating and financial performance for the quarter. I hope you had all the opportunity to go through our results presentation, which provides details of our operational and financial performance.

In the fiscal year 2022, we have delivered steady performance, led with stable consumption and offtake across key geographies. Our European business delivered robust growth in the year, driven by improved client wins in the Italian and other European markets. In India, while we saw improved wins from the large FMCG customers, the contribution from smaller customers remained subdued, thus moderating our overall domestic growth.

One of the key focus areas for us has to be strengthening our larger customer base. In line with this approach, we recently participated in a global RFP with a large global MNC. This should strengthen our performance and growth market position in the global F&F space, and further broaden our presence in this customer category. This is a new initiative with a large key growth driver for us in the near future.

On the consolidated basis, our revenue from operations grew by 18.3% in FY 22. On a segmental front, domestic core Fragrance revenues marked a growth of 7.3% YoY. Organic growth in the Flavour division was a healthy 15% YoY. All our acquired businesses, including CFF in Italy, Nova, Holland Aromatics, and NuTaste have delivered strong performance during the year. On a full year basis, CFF's core fragrance business grew by 21% YoY in FY 22.

On the raw materials front, we continue to witness cost pressures on account of global inflation in raw materials, and supply chain constraints. Furthermore, the ongoing geopolitical conflict has intensified supply chain bottlenecks. Despite such macro-inflationary environment, we managed to deliver 15% EBITDA margin and a healthy free cash flow-to-sales of 11%. We have been undertaking price hikes in coordination with our customers, which has enabled us to limit the impact of margin performance to a certain extent.

Coming to profits, our reported PAT in FY 22 stood at Rs. 148.5 crore and our cash profits stood at a steady Rs. 176.6 crore. In our earning presentation, we have highlighted the impact of higher amortization of intangible assets on our future profits. This is on account of these acquisitions and is a non-cash item. So going forward, the cash flow from operations will be an important monitorable for us, rather than PAT in the accounting basis.

From a consolidated balance sheet perspective, our net debt position stood at Rs. 509 crore as of March 31, 2022. Increase in debt was primarily due to conclusion of our latest two acquisitions, namely Holland Aromatics and NuTaste. In addition, higher working capital in the current inflationary environment also impacted the debt levels. We firmly believe that these are peak debt levels for us and our focus is on reducing these debt levels from here on. Our business model has inherently been a low capital intensive one, and going forward, it is our endeavor to improve our ROCEs from these low levels.

On the cash flow front, while increase in inventories to the tune of Rs. 118 crore enabled us to maintain gross margin and meet customer requirements in the challenging raw material environment, it resulted in lower cash flow from operating activities during the year. We remain committed towards reducing the current inventory levels and improving our working capital cycles to more normal levels going forward. Cash flow from investing activities in FY 22 is largely towards acquisitions.

Talking about the business, on our business fronts, our participation in the global RFP is progressing well and we remain optimistic about the multi-year business potential from this global tender. From a demand standpoint, we continue to witness steady offtake across emerging and European markets.

Inflationary pressures are impacting discretionary spending to some extent, though, we are seeing healthy customer inquiries. In the last few quarters, despite adverse market conditions, we have undertaken measures to enhance our global market presence, augment our niche offerings and expand our customer segments. As we look ahead, our growth initiatives will help support accelerated growth in the medium to longer term.

Before I conclude my remarks, I would also like to share that the Board of Directors has recommended a final dividend of Rs. 0.75 per share, in line with our profit distribution policy. This is in addition to the buyback of SHK's fully paid up equity shares through the tender offer route announced in October 2021.

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

Moderator: Thank you very much. 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: Can you throw more light on the global tendering that you were saying in your opening comments? When are we likely to have some order from that?

Kedar Vaze: So, the global tendering process as we have alluded is a 12-month process. The first, I would say 10% odd of the process is concluded, we have filed our tenders. The next 40%-50% tenders are being filed as we speak. And by the end of this year, the entire tender process will get completed. From the tenders and the projects that we are doing, we expect that the second half of this year is when the revenues should start to flow in. But we have to adhere to the process. All the revenues will start ramping project-by-project and it will take three years for a full ramp up of this business.

Bhavesh Chauhan: And sir, any quantum of revenue that can come from this, over a period of let's say next year onwards or something?

Kedar Vaze: So, we are looking at something like Rs. 50 crore to Rs. 60 crore of incremental business year-on-year as a potential, overall potential is much higher, but I think we should be able to touch around Rs. 250 crore as a good estimate where we can address. And on a kind of pessimistic view, will be around Rs.120 crore. So, anywhere between Rs. 120 crore to Rs. 300 crore is our expectation of this business.

Rohit Saraogi: And this will come in a staggered manner, over a period of three years. So, if we start winning the projects, so, it will be like Rs. 50 crore, Rs. 100 crore, Rs. 150 crore. So, at the end of the third year, we will get the full potential.

Bhavesh Chauhan: And sir, on the margin front, given the significant rise in price of raw materials, are we taking price hikes or any other measures to restore our margins?

Kedar Vaze: So, we are continuing to look at the price hikes in discussion with our customers and we have taken a couple of price hikes in the last quarter and starting April this year. I think we have already discussed earlier, but we are focusing on the gross margin absolute contribution. The nature of inflation and the rapid pace of inflation means we are not in a position to take full corrections on the cost, because there will be some margins hit on a percentage basis. But we look to keep our gross margins in terms of absolute terms steady and work with our customers as things improve, both in terms of demand and to some extent, easing of costs or easing of supply chain, we will take up accordingly.

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

Dhaval Shah: So, just couple of questions from my side. Sir, firstly, could you tell us what sort of gross profit impact have you seen in this quarter and how much is left to be passed on? So, what will be the normalized level of gross profit once we take the price increase?

Secondly, our other expenses has also increased in this quarter. So, FY 21, we had a very low number in terms of percentage-to-sales, logically, because of the lower overhead expenses, like traveling and exhibition and all of that, but, so, are we back to the normal range? And what sort of higher freight expenses are also in this, which could also get normalized going forward?

Third question is, that I understand our organic growth acts of this Holland and the other acquisition, which were not in last year's base, is a single-digit growth, which I think is a very low number. So, if you could tell us why the growth is slow, at only single digit? Yes, so, these are my first set of questions and then we can have one more round after that.

Kedar Vaze: So, let me answer that one by one. On the gross profit, I think Q4 FY 22 was subdued at 39% gross margin for this quarter. We had come down from starting of the year, 43 odd percent. So, this 10% decline in gross margin is what the net result of the inflation which has kicked in second half of the year. We are, in the current situation with the price increase and the cost, we hope to maintain through FY 23gross margin, excess of 40%, around 41%, if there are no further escalations of raw material or steep escalations of raw material throughout the year.

In terms of, we alluded and talked about inventory in September-October, last year, that we have taken conscious call to increase our inventory levels and offset the hyperinflation. I think we are now looking at reduction of the inventory levels going forward, and we should start to see the effect of that post July.

You talked about second question was on the overheads. So, I think we will maintain our overhead percentage.

Rohit Saraogi: Yes. So, the overhead stands at 14.1% to sales and however, there has been an increase in freight cost and power and fuel but at the same time the traveling have started if you compare this year, but our endeavor is to maintain it at the same level.

Dhaval Shah: Okay. Okay. And this 14% you said would be for the --- because Rs. 89 crore on a revenue of Rs. 450 crore, so that will be around 20%?

Rohit Saraogi: So, I've taken other expenses. What are you adding?

Dhaval Shah: No sir, just from the way it's being reported, the other expenses which is there.

Rohit Saraogi: Okay. So, you are adding depreciation and cost?

Dhaval Shah: No sir, I will take it offline.

Kedar Vaze: Let me just put it there, that despite the cost increases on energy and freight, we are taking steps to reduce our operating costs to maintain the same level of overhead in the upcoming year. So, whichever number you take denominator and divide it, the cost control we have already initiated to reduce the overall cost per kilo to the same level, where the freight and additional energy costs are borne, but we don't have an inflation on account of that customer.

Dhaval Shah: And sir, on the growth front of absolute growth, ex of acquisition, that seems to be at a very single-low digit number. So, what is the reason for that?

Kedar Vaze: Yes. So, we have been very conservative in terms of growth, because of a lot of reasons. One is the demand is subdued. There has been pricing pressures, so we've been cautiously moving up the pricing to our clients and due to the supply chain disturbance and uncertainty, we are not being very aggressive in marketing to new clients. So, we are focusing on existing clients and products to a large extent. This is resulted in slower growth in the second half, last year compared to the year before. But we are on track. Normal disruptions are there but we are on track. So that's the part on the growth.

If you see the pandemic effect in Europe was preceding what was happening in India. The next last wave was only sort of prevalent in Emerging Markets. We saw that in Southeast Asia, in India, largely playing out, but in European continent because of the vaccination, the effect was very minimal. And we've seen the rebound and the fast growth in our European operations. We expect the same thing to play out in the Emerging Markets as we go forward.

Dhaval Shah: Sir, you mentioned about the slower growth. So, could you quantify which segments are you seeing the slowdown, the product-wise, the market wise?

Kedar Vaze: So, we have typically, part of our business which goes to the kind of trade and shops, so indirectly, the consumption on the bazaar market and the festival market of Ramadan. So, this year, we've seen again, first quarter effect of pandemic in the Indian subcontinent has meant that these small segment businesses have been affected. Plus, the raw material inflation, new payment cycles, we have been very tight on our credit policies. So, there is an element of supply chain de-stocking through the clients holding and through the supply chain as well.

Dhaval Shah: So, do you see any improvement in the current quarter?

Kedar Vaze: I think current quarter is still muted in terms of growth, but we will start to see strong growth in the second quarter onwards. There are very good signs in terms of inquiries and demand coming through.

Dhaval Shah: And sir, lastly on the tender side of the business, I think in the last one of the conversations, you mentioned about Rs. 400 crore as the opportunity of the tender. Now, the number you shared is between Rs. 150 crore to Rs. 300 crore. So, this reduction of Rs. 100 crore, I mean have we reworked our plan or the other bidding, and also this staggered manner is something which is new too, which we were not aware of. So, can you just explain as the entire tender thing again? How it is going to move forward and how should we count, we were going to make an official announcement for it, because it was supposed to come out in April end? So, has that got delayed?

Kedar Vaze: So, this global tender and as a result of the Ukraine situation, it is being postponed by a few weeks. We kind of hear bits and pieces and it's not going as per what the original timelines indicated to us. So, we are waiting and watching when we get more conclusive numbers and timelines from the client. But we are very much participating in the process and the process continues. I think the net result of this is probably a six-month delay in the entire process, as they reassess the briefs and the cost for each of the product will need to be re-evaluated post the Ukraine situation. So, many of the original filed numbers have seen a change and that has delayed the process to some extent. But we are very much bullish to start winning business end of this year and then next year to see a good ramp up and in the third year additional ramp up.

Dhaval Shah: So, now, since it's a staggered ramp up, how would the margins be? On a Rs. 50 crore base and on a full potential of Rs. 300 crore base, how would the margins look like on EBITDA level?

Kedar Vaze: So, I think most of this business will come in existing manufacturing plants where we already have a base volume. So, this will be all marginal, direct accretive business. We expect that the gross margins will be on the lower side of our current client. However, the volume basis, the net margin will be similar to what we are currently delivering.**Dhaval Shah:** So, for normalizing current quarters, EBITDA of around 13% odd, assuming, so, maybe 15%-16% is the normalized margin in your business. Is my understanding correct?

Kedar Vaze: Yes. So, we have been guiding about 18% to 20% EBITDA levels. I think with the inflation, we are seeing a 10% compression of margin in the near-term and we would be guiding 15% to 16% EBITDA for the full year.

Dhaval Shah: And also, on the new business , the tender , as in how it comes in?

Kedar Vaze: Yes. That is an additional growth lever for us and we are not speculating or putting any time, specific timelines on that. We are ready from our supply chain side and as I mentioned, as we pull out inventories, we will have also the working capital readiness for taking up additional business.

Dhaval Shah: And sir, on the organic side, since now all the acquisitions are consolidated, the quarterly numbers. What would be the core organic growth lever guiding for FY 23? So, we are at Rs. 450 crore now for the March quarter. So, any guidance would you like to share?

Kedar Vaze: Typically, the fourth quarter is the strongest quarter. We are seeing this Rs. 450 crore number for this quarter. My guesstimate is that for the full year, if I look at the underlying business at 10% to 11%, plus, the additional acquired business, we would end up with somewhere around Rs. 1,800 crore as the revenue line for next year. This is not taking any large ticket, none of the global MNC or all these acquisition businesses also have some big growth potential projects. So, we're not taking any of those into these underlying numbers.

Dhaval Shah: The additional would be the tender. So, if at all, maybe you said H2 FY 23 it will start coming. So Rs. 50 crore is the first year. So, maybe around Rs. 20 crore-Rs. 30 crore revenue could come from there. Correct?

Kedar Vaze: See, this Rs. 1,800 crore is our sort of stenciled number for the year. Rs. 450 crore quarter is the highest quarter. Normally, quarter four is the higher quarter in the year. So, in a normal basis of Rs. 425 crore odd into 10% to 12% growth on that. That's kind of what we're penciling in. It's still very uncertain to be aggressive because the supply chain constraints are making us to be selective on where we want to grow. So, we are focused on margin growth and not so much top line growth at low margin. We'll focus on the kind of 41% gross margin average and continue to grow.

Moderator: Thank you. The next question is from the line of Aakash Javeri from Perpetual Investment Advisors. Please go ahead.

Aakash Javeri: My question is more-broad based, in the sense that, currently how is the demand scenario looking in the European markets, and how was it looking pre-war and how is it looking currently?

Kedar Vaze: So, I think the European scenario, our demand is very robust. We continued to grow 15% CAGR on our core business last two years. We see continued growth there. No market saturation. We are one of the strong players in the mid and small sector in Southern Europe. And we continue to see very strong traction and growth.**Aakash Javeri:** Okay. And how was it looking pre-war? Has the war changed the demand scenario very drastically or would that be more or less similar?

Kedar Vaze: So, so far, we haven't seen any effect of the war on the demand. We are in very stable kind of part of the business, functional and home use products. We haven't seen any impact in the Italian or Netherlands market due to the war. There is obviously higher inflation, there is energy cost, impact of energy cost and so on so forth, which will flow in. We will wait and watch but as of now, there is no impact of the war on a direct demand scenario.

Moderator: Thank you. The next question is from the line of Viraj Kacharia from SiMPL. Please go ahead.

Viraj Kacharia: First question is, you said that incrementally, say from July onwards you are looking at reducing the inventory levels. And at the same time, what you're also saying is that you continue to face supply chain constraints. So, is it the demand outlook so weak? That is what's driving the low inventory level or I mean, how should one really understand this?

Kedar Vaze: So, we have had from September last year, I think, the six, seven months where supply chain and inflation both were very difficult. So, we built up inventory to offset part of that supply chain constraints, and to also average out the price increase or cost increases on a longer-term basis that we get the price increases from our clients in some offsetting the cost increase. We have taken that call since third quarter last year and continued in the first quarter of this year, and it will flow into the first quarter of this financial as well. Post, which we will normalize the inventory.

So, for nine months, we have now picked up approximately Rs. 65 crore-Rs. 70 crore of extra inventory as a base level, which is adding almost one month of consumption, and we have now taken a call to reduce that starting July to more normal levels and pull out Rs. 60 crore to Rs. 70 crore of additional inventory that we have increased post September last year.

Viraj Kacharia: So, the reason I ask you is because if you look at the small segments, I think our commentary there has been that we're not kind of participating aggressively. But in terms of inventory, we are still in a very healthy position. So, just trying to understand how should one understand it?

Kedar Vaze: See, aggressive participation question was in terms of the last quarter and last second half of last financial year. We see things, conditions improving, and we will start to be more aggressive in the market in this year starting Q2 FY 23. We see this in a way the demand starting to come back and supply chain normalizing as we speak. It is now still uncertain, I don't want to say we have 100% view. This is the assumption, on that basis we are pulling, reducing our inventory levels and starting to go to the market in terms of more aggressive pricing and taking this as a cost base.

Viraj Kacharia: So, on the RM part, just to get an understanding right, therein we are already seeing some correction in key RM prices, given our focus on growth and pricing therein, the margins what you are seeing, the gross level is around 40-41%, is how you're having, right?

Kedar Vaze: So, basically this is a guesstimate at best, nobody knows exactly how things will pan out in the next few quarters. Things are uncertain. But our base assumption is that the worst of inflation in terms of raw material is already what we are seeing today. And things should stabilize from here and not create additional inflation in terms of raw material for us. And on that basis, we are planning our rest of the year.

Viraj Kacharia: Okay. Second question is on the global RFP tender. Given we have a wide presence in Europe, Asia and in India, when we are kind of bidding for these products, what is the kind of focus market for us? Is it primarily within these three or are we kind of also looking at other markets?

Kedar Vaze: So, our strategy for the global RFP continues to be the 3-I strategy that we have mentioned, in Italy, India and Indonesia and we will focus on these regions as our supply and development targets. Even for the global business, these are the three regions that we will focus on our tender.

Viraj Kacharia: So, even say for the European market, is there a flexibility to supply from India because that's where the internalization is largely at and if you look at say the CFF or Holland Aromatics, the kind of capacity they have would be quite smaller in required, in relation to the requirement the customer would have and there's already a certain steady state of business we cater to from those plants. So, when we kind of bid for these projects, is there a flexibility to actually supply from say, India operations? Is that how you are kind of approaching this?

Kedar Vaze: One of the reasons to also acquire the Holland Aromatics to have some additional capacity. Between the two operators we are looking at synergies in supply chain and enabling additional capacities to be freed. Part of Holland Aromatics exports can also be diverted to our Indian manufacturing. So, we have now the capacities in play within the Group to address the requirements of the large projects.

Viraj Kacharia: Okay. But you wouldn't need any further incremental major CapEx to fulfill this?

Kedar Vaze: No, there will be small incremental CapEx, but no major investment for the RFP, which is anticipated.

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

Bharat Sheth: First two bookkeeping questions. One is, when you say this EBITDA margin, that factoring I mean our contract manufacturing in the Italy business, where the margin is very low or that is a separately we would like to treat?

Kedar Vaze: So, that is a composite. 15% is composite with the contract manufacturing. Longer-term, our objective is to reduce the volume value of contract manufacturing, utilize that capacity for our own growth. That contract manufacturing is a low-digit gross margins and our own products are around 45%-50% gross margin in Europe. So, we will not look at the revenue line growth but to look at the gross margin growth.

Bharat Sheth: Okay, and second is on this R&D. I mean this amortization will remain at what level? And any further increase? Since last two years we reduced the R&D spend. So, how does one view that?

Rohit Saraogi: So, on the R&D aspect, in the quarter one, if you are referring to the Rs. 12.9 crore which we have taken a one-time hit in our P&L and we are charging it off in our P&L. So that is not anywhere impacting us. The point which we have mentioned here in our earnings presentation is with respect to amortization of intangibles on acquisition, which is on CFF, Holland Aromatics. So, which is Rs. 20 crore in this year and that moves to Rs. 28 crore next year, which is a part of depreciation line item.

Bharat Sheth: And now, I mean when we are looking at a much better business opportunity, so I mean, apart from encashing our existing pipeline that we built up, so again, how we are adding new product pipeline?

Kedar Vaze: So, product pipeline R&D, we are continuing. There are good products which we have been introducing and pipeline is strong. I think the demand environment needs to stabilize. The situation of continuing inflation is what is driving the growth to existing products and supply chain, focusing on delivering current business in hand. Once we see that the supply chain starts to ease out and we have a steady cost, I know the costs are much higher than where they used to be last year, but as long as they remain stable and uncertainty around the future reduces, the growth will come back.

Bharat Sheth: And again, would you like to share something on the demand side on the Fragrance, as well as on the Flavour side for each of the three, four geography we are largely focusing? One is Europe, India, Indonesia and Middle East.

Kedar Vaze: Europe has seen continuous growth, through the pandemic we have continued to grow. We see robust demand. There is no change in the environment there. Middle East, we see a revival as oil prices have gone up and post pandemic there is some level of buzz and I mean oil prices have a direct bearing on the spending power in the Middle East region. So that is helped by the sentiment of current oil prices going up. In India, I think we have seen mixed situation. There is demand, there is pent up demand and per capita demand, but inflation at the lower end, we are also seeing part of the discretionary income being taken up by the inflation of food and basic items. So, the expectation is there will be price increase, there will be small volume growth, but if the stability on the costs are there, then the second half you will see very strong growth recovery in the Indian subcontinent.

On the Southeast Asia, we are seeing last two years, we had a lot of concerns on supply chain due to the pandemic. We are looking at strengthening the business model there with local supply and warehousing, and further maybe part manufacturing or repacking in the region to help us quickly respond to the market. So there again, the demand is back. We see the post pandemic scenario playing out in Southeast Asia. Similar in India, which I think with a lag of couple of quarters, we will see the growth coming back.

On the food side, we are seeing strong robust growth across the region, both India, Middle East, and on our exports plus domestic. We've seen 15% growth YoY and we continue to see strong growth. During the pandemic, couple of years, we have missed out on the growth during the summer. So, a lot of the beverage, ice-cream segments, sales in the segments are seasonal. So, we lost out. This year we've continued to supply, so we're seeing continuous business on that.

Bharat Sheth: Okay. And this year, as you said that we are expecting around 12% kind of growth and plus, whatever in this new global business can play out. So how do we see, I mean say, medium-term, your growth aspiration?

Kedar Vaze: We have committed to the 12% growth trajectory we had set out. I think we were very much on track in the last year, first couple of quarters and then we've seen disturbances on pandemic, particularly in the Indian subcontinent. We continue to keep our 12% YoY growth target, CAGR growth as our baseline case.

Bharat Sheth: Are we looking for new geography?

Kedar Vaze: At the moment, no. We are not looking at new geographies. We are committed to our 3-I, 3-C strategy and we will continue to invest in the three regions, South Europe, India and Indonesia. Having said that, with the part of the global RFP, we need to augment our offerings in China and America and we may set up small kind of, not full-fledged things but some tie-ups with local companies or small setups to prepare ourselves for the future but investment CapEx point of view, we are not expecting new geography to be added.

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

Dhaval Shah: My question is on the long-term wealth creation for the equity shareholders, like in 2012, Blackstone invested at Rs. 750 crore valuation and currently we are at Rs. 1,800 crore market cap. So, even on our 10-year journey, we are at 10% CAGR in terms of this. Now, with connection to this, now our balance sheet, now we are at the highest debts, last 10 years, 12 years. So, what is your plan and we've done a series of acquisitions? So, could you just give us a roadmap in terms of what sort of debt would we like to reduce going forward? What is our focus and also, if you could share a separate presentation on a revenue bridge, with regards to what all acquisition have we done, when have we done, what sort of revenue and profitability have they added? This will help us in understanding the company better. Because there is a lot of acquisitions, lots of subsidiary and in terms of valuing, there are certain high margin products, low margin products. Like more information on this entire revenue bridge will also help. So, these are my two questions. I would like to understand management's thought process for equity value creation.

Kedar Vaze: I think one of the parts which we've seen the post IPO, at one we were zero debt, and when you look at our Return on Equity, there is a good case for putting some leverage. We've seen very low interest rates, particularly in the European Euro zone, which has prompted us to pick up some assets on our longer-term strategy. As we speak, we are looking at an environment where interest rates are rising and are expected to rise further. So, we will pull down on our overall debt-to-equity ratio, and that way, ensure a better return on the equity. That is about the debt to equity.

So we've had in March 2020, a 0.3 debt-to-equity ratio. We've gone up as high as 0.5 on debt-to-equity ratio in this year, and will bring it down further as we go ahead, as interest rates are tending to go upwards and we will reduce our overall debt levels.

Dhaval Shah: Could you break up the debt taken from Indian banks, taken from foreign currency? What are the interest rates?

Kedar Vaze: 80% of the debt is foreign currency denominated either in U.S. dollars or Euro. Only 20% odd debt is with the Indian banking.

Dhaval Shah: So, what is the repayment schedule?

Kedar Vaze: So, many of these are working capital lines. So, we have sufficient deadlines to continue kind of evergreen on a yearly basis. On the term loans, we don't have bullet payments. We have sort of staggered payments. Repayment schedule starts this year. So, we have repayment schedule completely to USD 4 million per year on aggregate basis, starting this year.

Dhaval Shah: So, assuming, FY 23, Rs. 1,800 crore, 15%-16% EBITDA margin, we are at Rs. 260 crore-Rs. 270 crore EBITDA. Out of this, how much do we plan to channel towards repayment?

Kedar Vaze: So, we will have about Rs. 150 crore of free cash after CapEx and other costs and part of it will go as dividends. Approximately Rs. 30 crore or Rs. 40 crore dividend is an exact number depending on how the inflation and market scenario, we can decide. And about Rs. 100 crore of debt reduction. Whatever is the growth, there'll be some Rs. 10 crore-Rs. 20 crore of working capital. So, about, I would say Rs. 90 crore of debt reduction and Rs. 40 crore of dividend or distribution, that sort of ballpark now. We will have to really look at it as things pan out. Interest rates remaining very low, it may be interesting to keep that debt and payout to shareholders or the interest rate starts going up, we will reduce the debt and we will see how things pan out.

But I think as of now, our assumption is quite optimistic that things will start to grow. We're not anticipating any big shock further to where we are today. And with that, we anticipate some interest rates to go up. We will reduce the debt and pay out the dividend as per our policy.

Dhaval Shah: And given that rupee has been depreciating in the last couple of months, on this foreign currency loan, what sort of loss do you see due to the translation loss and hedging loss?

Kedar Vaze: Most of this currency is Euro based debt.

Rohit Saraogi: It is a local currency.

Kedar Vaze: We have not seen any effects because we have our payment and revenue and profitability also in euros. So, it is Euro to Euro scenario. We are not seeing any big change.

Rohit Saraogi: Yes. That is one, and another aspect is, we completely hedge our exposure and so, we don't have any exposure per se when it comes to Forex.

Dhaval Shah: So, all your principal and interest repayments of European debt are serviced from earnings in Europe.

Rohit Saraogi: Yes. It is in local currency.

Kedar Vaze: One, if you talk about currency, from part of our business where we see options to China supply chain is one of the trends which we are seeing in terms of our clients and global business. So, we need to really look at rather than dollar, Euro, Rupee also, the parity and difference between Rupee and Chinese Yuan and how that currency is. So, that's really the net effect of all the hedging. So, if the export realization is better than in Chinese currency and as Rupee versus Yuan that is really the arbitrage or benefit for us.

Dhaval Shah: So, sir, could you tell us how many currencies are we exposed to in terms of our export revenue? So, which all currencies should we keep a tab on?

Kedar Vaze: Sir, actually only two currencies, Euro for the European business. So, the debt and entire business is in Euro, including debt equity, everything is in Euro, which is about, I would say, one-third of our entire business and half of our debt. The balance business is operating either in INR for all the domestic or in U.S. dollars, which again from the perspective that we have exports from India in U.S. dollars, we have imports in U.S. dollars and we are hedging the currency offset, we really are neutral on the currency.

Dhaval Shah: Okay. And sir, just one request. If you could share that revenue bridge with regards to how the company has added revenue from our various acquisition, that will really help us.

Kedar Vaze: Sure. We will circulate detailed part of it. It will be in our annual report. We will send it.

Moderator: As there are no further questions, I would now like to hand the conference over to the management for closing comments.

Kedar Vaze: Thank you. I hope we have been able to answer your questions satisfactorily. Should you need any further clarification or would like to know more about the Company, please feel free to contact our team of CDR India. Thank you once again for taking the time to join us on this call.

Moderator: Thank you. On behalf of S H Kelkar & Company Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

-End-
