November 14, 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 Q2 FY 20 earnings conference call for investors and analysts organized by the Company on Wednesday, November 6, 2019 at 5.00 PM 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 400080

Deepti Chandratre
Company Secretary & Compliance Officer

Encl: As Above

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SH Kelkar and Company Limited

Q2 and H1 FY20 Earnings Conference Call
November 06, 2019

Moderator: Ladies and gentlemen, good day and welcome to the SH Kelkar and Company Limited's Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anoop Poojari from CDR India. Thank you and over to you.

Anoop Poojari: Thank you. Good morning, everyone and thank you for joining us on SH Kelkar and Company Limited's Q2 and H1 FY20 Earnings Conference Call. We have with us Mr. Kedar Vaze – Whole-time Director and CEO; Mr. Shrikant Mate – EVP and 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 Mr. Kedar Vaze to make his opening remarks.

Kedar Vaze: Good morning everyone and thank you for joining today to discuss the Operating and Financial Results for the quarter and half year ended 30th September 2019.I will begin by taking you through the key highlights of the period under review and we will then look forward to taking your questions and suggestions.

We have delivered a stable set of results during the quarter and half year ended 30th September 2019 despite subdued sentiments witnessed in the domestic market.

On a consolidated basis our revenues from operations stood at Rs. 548 crore in H1 FY20 as against Rs. 518 crore in H1 FY19 registering a growth of 6% YoY. Q2FY20 revenues came in steady at Rs. 276 crore compared to Rs. 282 crore last year. While the external demand environment was tricky, we witnessed increased client engagement with existing and new FMCG customers. All of this translated into account wins in the Fragrance Division across product categories especially Beauty and Personal Care, Freshener - Car fresheners, Air fresheners and Soaps during this quarter. As these products grow in the market, we anticipate improving contribution to sales performance in the future.

On the profitability front, EBITDA during H1 FY20 grew by 10% to Rs. 87 crore. EBITDA margins stood at 16% higher by 66 bps. In Q2FY20, EBITDA stood at Rs. 39 crore with margins at 14%. The Company expensed non-recurring costs of approximately Rs. 4 crore owing to higher employee cost and other expenses during the quarter. Similar initiatives will be undertaken in second half of FY20 which will further see expensing of non-recurring costs. These costs pertain to internal reorganization of teams and incentive structure to make them more variable in nature. These costs once expensed, are expected to sustainably alter the fixed and operating expenses to a more variable structure. We should help the company maintain its normalized margins through varied business cycles and incentivize the teams and prepare the organization to navigate through change in the operating environment which we have been seeing. The operating environment has regularly seen large changes with accelerated velocity over the last couple of years. With these initiatives, we will strengthen our growth outlook relative to market growth and prepare for the future.

The PAT in H1 stood at Rs. 34 crore and was Rs. 15 crore in Q2 FY20. Interest cost increased to Rs. 14.1 crore and depreciation stood higher at Rs. 25.3 crore in H1 primarily to owing to the commissioning of the new facility at Mahad and adoption of new accounting standards.

On the raw materials front, the environment in the global markets saw early signs of stabilization during the first quarter of the fiscal. By September 2019, the raw material pressure had largely eased out and is currently in a fair state of normalcy. This has led to stable raw material prices and better availability of key raw materials.

Moving to our segmental performance, the Fragrance Division delivered a stable growth in H1 and the domestic Fragrances grew by 2%, the Company's international segment registered a growth of 20% YoY. In Q2 FY20 the domestic Fragrances de-grew by 6% on account of subdued sentiments and base effect vis-à-vis last year and international segments marked a healthy growth of 15%. Operating profit during H1 stood at Rs. 63 crore against Rs. 66 crore in H1 FY19. In Q2 FY20 operating profit stood at Rs. 27 crore as against Rs. 37 crore in Q2 FY19. As the raw material situation normalizes, the division should deliver stabilized operating margins over the long-term.

In our Flavour Division, we reported a subdued performance during the period. The revenues during H1 FY20 stood at Rs. 49 crore as against Rs. 53 crore in H1 FY19. The domestic business in particular de-grew by 28% while overseas marked a growth of 20% during this period. Particularly in the Q2 FY20, the increased momentum in the overseas business delivered a healthy 20% YoY growth. The domestic segment however de-grew by 54% in Q2 based on a base effect particularly seasonality linked to Diwali versus the increased uptake for Diwali last year. In H1 FY20, the segment recorded an operating profit of Rs. 6 crore with margins at 13%. In Q2 FY20 operating profit stood at Rs. 3 crore. Going forward, we expect to report better results for this segment in H2 FY20 as well.

I am also happy to share that the promoter group, during the quarter, has increased their stake in the Company purchasing 2 lakh shares. With this, the total promoter holding now stands at a healthy 57.5%. In another development, promoters have also released 55.5 lakh pledged shares with a balance of 33,000 shares yet to be revoked which will be released in due course.

In conclusion, looking ahead, various pro-growth measures undertaken by the government to boost demand and investment in the country should lead to better consumption and enhanced consumer sentiments. Along with the raw material situation easing out, the availability of key raw materials will help out the Company's long-term to improve profits and margins. In addition with the Company's initiative to improve working capital and operating cost efficiencies, we should see strong robust cash flows in the business. We continue to see great potential in our present business across all categories in the medium-to long-term perspective. Overall, we look forward to scale up and deliver improved performance in the upcoming quarters.

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

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Ajay Bodke from Prabhudas Lilladher. Please go ahead.

Ajay Bodke: My first question is, in the last conference call held in August, you had stated and I quote you, "As I have mentioned in the last call, we are hopeful of a strong double digit growth, both in volume and bottom line for the year, domestic as well as export. We do not see any change from that", quote complete. With a 6% YoY increase in total operating income in the H1FY20, even if you assume, not such a strong double digit growth, a growth of just 11% or 12% for the full year, it implies a H2FY20 growth of between 15.8% to 17.8% on a YoY basis H2FY20 over FY19. Looking at the current environment, do you feel that it is achievable? If not, is there a case for you to tone down the guidance that you had given as late as August 2019. That is the first question.

Kedar Vaze: So, I think the question is very appropriate and I think I want to put this in a broader context of where the Company is and what we are doing. Let me start with what is the raw material situation. As we spoke in August vis-à-vis mid-September, many of the key raw materials prices have decreased and availability has changed dramatically in some cases as much as 100% - 200%. So things have changed very dramatically over the last one and half months on the raw material side. And on the demand side, when we were talking last in July – August, we were looking at the normal uptick pre-Diwali. Particularly, in the Flavours this year, there has been zero uptick in the sales of Flavours largely due to prolonged rains in various parts of the country where the typical beverage market is not picking up resulting in a very flat uptick in Diwali. So, last year versus this year, 6% growth on the first half of last year is also trending faster than 6% YoY for last year and we believe that our underlying growth continues to be there vis-à-vis the market and we are still hopeful of more than 12% YoY growth. I also want to track here that while the volume growth of 12%, I am reiterating that we are on track, because comparing the first half versus this year first half, if you look at the Q2 last year, we had an exceptionally high growth pre Diwali and then Q3 was on a lower level. I am still hopeful that the volume indication and, I would say, if I was 95% level confidence in August, we have 90% level of confidence now, but volume growth is still there, we are witnessing good new wins in the pipeline. The main issue which I think, we are correcting for, is a possible selling price correction in some of the products because of the changing raw material scenario and we will track that in correcting our operating cost accordingly. So the view is still the same. I think we are still trying to get the same bottom line. We may have the 12% volume growth but 12% volume growth may not translate exactly into 12% revenue growth if we have a pricing both on cost and sales decline to the extent that we are seeing at this point. So we are very cautious and our target for the end of the year still remains 12% in both volume and revenue.

Ajay Bodke: Essentially as you said, the target will remain 12% value growth among volume, we are confident we will try to maintain 12% value also as you said in the concluding remarks right now which will imply a very strong, as I said, 15.8 to 17.8% second half growth on a YoY basis. My second question sir, in the call in August you had also mentioned and I quote "Debt levels more or less at the same level in the end of March as it was in the beginning of the year. This implies almost Rs. 150 crore of pre cash flow generation and reduction in debt through the year. We are confident to achieve that number and run rate through the system". If I look at H1FY20, the free cash flow generation by the Company is a meager Rs. 12.6 crore. Cash flow from operations of Rs. 27.6 crore and a CAPEX of Rs. 15 crore giving a free cash flow of Rs. 12.6 crore. Are you confident that in H2FY20, the Company will be able to achieve Rs.137.4 crore of free cash flow?

Kedar Vaze: I think if you look carefully at the numbers, we have already taken steps on the inventory and the inventory reduction vis-à-vis last quarter and we are seeing the downward trend. As the cycle of payables and inventory normalizes, we have already reduced roughly Rs. 30 crore of cash flow from the operations which will come in over and above the operating profit that we would be generating in the balance six months. In addition, we have a large number of taxation related dues which are due to be refunded and that is something which we are progressing on and talking with our respective taxation officers. So with the operating cash flow and the tax revenue refunds plus the working capital, I think we are still confident to meet our working capital targets.

Ajay Bodke: This Rs. 150 crore of free cash flow, you are still maintaining for the full financial year FY20?

Kedar Vaze: That is right.

Ajay Bodke: Ok. And sir, on the debt side, the net debt has moved up from Rs. 348 crore as of end first quarter FY20 to Rs. 400 crore as of end second quarter FY20 and your cash levels also have moved down from Rs. 75 crore to Rs. 44 crore. So do you still maintain that by the end of the financial year the debt levels will be lower than what they were at the beginning of March?

Kedar Vaze: As we mentioned, we are on track for Rs. 140 – Rs. 150 cash flow generation in the balance of the year and we will remain largely close to the March level, give and take, Rs.5 or Rs. 10 crore.

Ajay Bodke: And lastly, in the opening remarks you said that in the second half, there will be further non-recurring cost to come, would you able to quantify what number you have in mind?

Kedar Vaze: We are relooking in terms of our long-term strategy and way of operating the business in the business model to factor in faster changes and differential growth rates in different parts of the world and different business segments. So our objective in this restructuring is to make more agile business units that can quickly respond to any changes that are happening. So these are things that we have been looking at the last two years and I think the environment, globally and in the domestic market, is very fast-changing and what we are looking at is to re-do the underlying business practices and cost structure and people teams in a manner that we are better able to respond to changes on a localized level.

So if something changes in China, we do not need to change everything in our business model,people and the entire structure, but we can change just part of the organizational working and the same across different business units. So our objective in this is to, I mean, we do not have a specific quantified specific point. We will change in the next two quarters to better reflect what is the business reality of the future and accordingly, make our business robust through bigger cycles of change.

Ajay Bodke: So this Rs. 97 crore of intangibles and goodwill that you have in the balance sheet, will there be any charge related to that in the second half?

Kedar Vaze: On the Mahad facility, which we have alluded, most of the productionhas is now moved to India. We will have a look at the facilities in the Netherlands vis a vis business opportunities there and then work out the basis. So there is no specific goodwill or specific hit which will be charged out. But we will retool the facilities as we do. Most of the goodwill is in terms of the acquisition which is being amortized on a regular basis.

Ajay Bodke: On the acquisition that you intend to complete in the second half, is there any assumption of debt for that?

Kedar Vaze: We are looking at that carefully at this moment. I do not have a fixed number on that. We are evaluating the timelines and the finalization of that. Just to add, we have already taken some of the key management resources. We have our team for the acquisition ready, both in terms of integration and in terms of managing the business and we will then outline, with the current partners and selling shareholder, a timeline and details of when to acquire and conclude the transaction.

Ajay Bodke: My submission is that as I had said in last quarter also, if you could crunch the timeline between the announcement of results and the conference call, I think it will be very well appreciated by the minority investors. Thank you very much.

Moderator: The next question is from the line of Ambareesh Baliga an Individual Investor.

Ambareesh Baliga: Couple of questions, first one is what is this non-recurring cost of Rs. 4 crore which you have written off although you explained to certain extent, I mean I can understand reorganization of the structure, incentive based on performance, but does this mean that there is some one-time pay off to certain employees or is this some sort of a separation cost?

Kedar Vaze: Yes, exactly that is the nature of the cost. There are early retirement separations and changes in the leadership that we have undertaken. So accordingly early pay out or separation cost has been taken.

Ambareesh Baliga: And you expect a similar cost again in the second half or the next quarter?

Kedar Vaze: I think we have no quantified number but in the process, we will have some non-recurring costs in the next two quarters .

Ambareesh Baliga: And just want to check out as to what is your progress on your private labels because if I am not wrong, you have been having the private labels since the last couple of years, but have we really seen some sort decent volumes in that because I only see those private labels in the exhibition. Can you throw some light on that?

Kedar Vaze: I think the private label that you are alluding is our retail business, 5%, 7% of our total revenue, which is a historical business. We also use exhibitions and the demonstrations to further illustrate new concept products, new products, get some consumer tests and if you have visited one of those exhibitions, it is largely a new business development or marketing venture than retail business foray for us. So we are not in retail, we continue to participate in some of these exhibitions with product demonstrations and most of these lead into concept generation for potential clients or entrepreneurs looking for new things or new business which is a kind of a new business development venture for us.

Ambareesh Baliga: Yes, but do I understand that there is not much of focus on retail as such?

Kedar Vaze: So we are actually suppliers to most of the retail customers, so we do not compete with them. Our objective is to understand, go to the consumers, do some limited consumer test,and make some products. So we do have sales online of limited additions or things like these or we do have our small branded fragrance oils that we sell but these are not our main products.

Ambareesh Baliga: Yes this will never be a focus area even going ahead I suppose.

Kedar Vaze: That is right.

Ambareesh Baliga: And as far as your Mahad Plant is concerned, I mean despite starting operations, I am not really seeing any addition either in the top line or improvement in your marginsWhat sort of capacity utilization is currently there in Mahad?

Kedar Vaze: The Mahad facility together with the China facility is at 75% plus capacity utilization. So, we will be probably appropriate at some point in the future when we have full year of Mahad running that we can put out the comparable vis-à-vis the business comparable time-frame in the past. So I think what we had stated to have a 2 million Euro cost savings. We have by and large been able to achieve that. It has been spread over a period of different financial years and quarters, so it is not visible at one go, but as we speak, the Mahad facility is up and running to the desired level. Like any other production facility, when you have a new facility, there will be teething troubles, there are learnings in the new facility and we will continue to improve the cost and improve the facility going forward. But it is at the desired level of operation cost and operation output, so we are very happy and pleased with the Mahad facility.

Ambareesh Baliga: Can I assume that possibly the operational efficiency of Mahad has been negated by raw material price increases in the recent past?

Kedar Vaze: In a way yes, because we have been running the PFW facility and the China facility in parallel with the Mahad facility and when we completely move and do not make the product in multiple locations, then we will have a better OPEX efficiency.

Moderator: Thank you. The next question is from the line of Chetan Ganodia from AlfAccurate Advisors. Please go ahead.

Chetan Ganodia: Can you quantify the amount of non-recurring, one-time cost that is included in our first half result?

Kedar Vaze: I do not have a specific quantified number because the cost is the overall cost of the organizational changes so it is not specific number. In totality, we have couple of one off costs. There has been additional freight on material movement as the Mahad facility has come on-stream fully and we had to move materials back and forth between the Mahad facility and the various stock points across the world and there has been cost attributable to people and changes in terms of the organizational changes. So in total, I would say, between the people and the one-off freight and relocation costs, we have about Rs. 6 crore of non-recurring cost in the second quarter.

Chetan Gindodia: The Rs. 6 crore is including freight and both employee cost?

Kedar Vaze: Yes, this is everything, so there are various smaller heads and larger heads, but all these relate to organizational changes.

Chetan Gindodia: Towards the EBTIDA margin, so how should we look at our EBITDA margin after this reorganization exercise?

Kedar Vaze: I think we have already indicated that an 18% level of EBITDA is where we used to be and if you look at then non one off costs, then we will be there within the next one or two quarters and after the non-recurring cost which we expect to hit these two quarters, we should be in that 18% to 20% EBITDA level.

Chetan Gindodia: Our targeted free cash flow data is Rs. 150 crore, so that would be going towards debt repayment?

Kedar Vaze: Largely.

Moderator: Thank you. The next question is from the line of Ashok Shah from LFC Securities. Please go ahead.

Ashok Shah: We have started with incentivizing schemes for our employees. So what type of benefits we expect to derive from this?

Kedar Vaze: Every organization and every employee participation has some level of variable incentive. We are just ensuring that we a have more focused approach and the variable is linked more to the performance of the Company or business units.

Ashok Shah: So is it applicable to both, say if they do not perform then?

Kedar Vaze: It is not 0 or 1, it is more variable. It is not like 0 and then suddenly, if you perform you get 100%. There is a variation, so we are making it more variable than previously.

Ashok Shah: Also, sir when you are seeing this performance wise variation, the promoter remuneration is on the higher side, so is there any thought on the reducing promoter remuneration?

Kedar Vaze: I will refrain from commenting on this I will take your comment to the Nomination and Remuneration Committee who can relook this and evaluate.

Ashok Shah: Similarly, what was the aim to buyback the share at such a high premium when we already have a debt which is to be serviced and we put out the cash by increasing the debt or similar way?

Kedar Vaze: I think there are various ways to look at it and we have very strong confidence on the cash flow of the business and we do not see that this was at an unreasonable price or was wrong timing of doing the buyback.

Ashok Shah: So again a prices has gone down, so the Company would be again contemplating a buyback because it is not a near the Rs. 180 price which is also a buyback price?

Kedar Vaze: I do not have any immediate view on that. The Board will consider at appropriate time what is the best method of distributing profits to the shareholders.

Moderator: Thank you. The next question is from the line of Dhavan Shah from ICICI Securities. Please go ahead.

Dhavan Shah: I got the overall capacity of our plants from the annual report of FY18, so would it be possible to share some revenue contribution based on the different plants?

Kedar Vaze: It will be difficult to quantify revenue because there is a host of inter-company production and parts are made in one factory and final thing is made in another factory. So it is difficult to quantify revenue to each factory. We can try to ascertain, I will see if we can give you a better data in the upcoming reports but it is very difficult to ascertain because products are made in various factories and supplied to each other and they are converted to the final products. So it is not one product made in one factory.

Dhavan Shah: But suppose if I talk about the current quarter number so can you share the volume growth or maybe the price, I mean price growth a differentiation between these two I mean that could be a de-growth, but if you can share the numbers?

Kedar Vaze: I think vis-à-vis last quarter to this quarter, there has been almost no price increase. There has been 1% approximately 1.5% price decrease. So you have a 6.5% volume growth and 5% or 7% volume growth and a 5.5% value growth.

Dhavan Shah: And in terms of EBITDA per ton, would it be possible for you I mean for this Flavours and Fragrance or maybe the aroma chemicals, how is the EBITDA per ton?

Kedar Vaze: The products are vastly different so there is no specific product. Each product is tailor-made so there is no per ton per kilo kind of a calculation. It is on a per sale basis, so we do a total revenue and a percentage of that revenue.

Dhavan Shah: Can you share some key raw materials?

Kedar Vaze: So we have already shared earlier our main four feedstocks in the industry are coming from the Turpentine wood processing, CST or Turpentine, petrochemical inputs like Citral. Then we have the natural citrus oils like orange and lemon. We have a host of natural products which are very large number of products coming from all over the world, which are of the nature of herbs, spices, fruits, bark, natural products which are grown or found in different parts of the world and are expected for perfumery and flavor use.

Dhavan Shah: How is the price scenario of these few raw materials?

Kedar Vaze: So two years ago the prices had skyrocketed. I think today we are seeing somewhat normalization of the prices. Individually, there are 1,200 ingredients. But I would say that we are more in line with the normal long-term trend.

Dhavan Shah: So our sales contract is long-term contract. So I mean the prices are fixed at the beginning of the year or how does it work if you can share. Have you built up any inventory or the low cost inventory will come in the coming quarters?

Kedar Vaze: So we have normally a three to four month lag between the inventories. If I look at inventory days, we have 120 inventory days which is on a higher side but effectively, we have roughly four to five months of inventory in the system -between raw material, WIP and finished goods - and it will take anywhere between two to three months before the price corrections, both upwards or downwards, start to play in cost corrections for us.

Moderator: Thank you. The next question is from the line of Naitik Mody from OHM Portfolio Managers. Please go ahead.

Naitik Mody: In Q2, under our Flavour division, our revenues have de-grown by 25% but our margins has doubled. Can you please explain that?

Kedar Vaze: I think last year, we had a very depressed gross margin if you look at it from a raw material scenario. This year, we are seeing more normal gross margin levels.

Naitik Mody: So is this a sustainable level?

Kedar Vaze: I believe so. I think on both Fragrances and Flavours we are around 40 to 45% gross margin level and I think this is the long-term sustainable level of our business.

Naitik Mody: But the same does not seem to have played out in your Fragrance business even if I exclude the Rs. 6 crore of one-time costs?

Kedar Vaze: On the gross margin level, I think we are on the 42 ballpark number and the one-time expenses are the one where the expense line is much higher.

Moderator: Thank you. The next question is from the line of Ramesh, an Individual Investor. Please go ahead.

Ramesh: My first question is regarding Fine Fragrance which was around 2% of our total business as in Q2 FY18 and we had a target to reach around 10% within three years. So we are down already, we have crossed two years so where do we stand as on date?

Kedar Vaze: I think the Fine Fragrance is business in the export market is continuing to grow. We will not reach the 10% level in three years, but we will hit much higher number than the 2%. As of now, after two years, we are at roughly 4% and we should end up between 6% and 7% for the next year.

Ramesh: Sir, the second is about launching the Netherland's fine Fragrance products here in India and India's products there in the European countries, so at what stage we are as on date?

Kedar Vaze: So there are already product wins and products which have been put out both in Europe from Indian origin ingredients and others and for India, fragrance from our Italian partners have been put out to the customers. Revenue streams are small at this point, but the wins and the kind of response for the products are good.

Ramesh: So during last quarter we have launched our products for the new segments like industrial Fragrance and automotive sector and all. How is the response for those products?

Kedar Vaze: The industrial demand is slow in general and we are no exception to that.

Ramesh: So in spite of all this change as right from last year the raw material and this year regarding the demand, are you still hopeful of reaching one billion target in the next six or seven years?

Kedar Vaze: I think we are focused on making sure that we are in good shape in the next four quarters. I am still positive about the underlying long-term initiatives, product development, long-term things which we have continued even in this last two, three difficult years. So we are on track to have all our readiness for the one billion. At this pointour strategic discussion with larger global MNCs, our product developments, new molecules, patented technologies, patenting are continuing in desired manner. So strategically in long-term, we are doing everything that we need to do to reach our goals. In the short term, in the last couple of years we have had a lot of macro headwinds and we are now gearing up to be leaner and ready to have these changes factored in a faster manner. But on the long-term direction, there is no change.

Ramesh: Sir, lastly, the raw material prices which you have mentioned there was sudden and downward reduction, do you foresee further reduction in the prices due to drop in demand also?

Kedar Vaze: No, I do not think that there will be any further reduction in prices. I think in the raw material, there is a knee-jerk reaction both upwards and downwards which is often exaggerated and in one, two months things streamline or come down to more normal levels. So, in my earlier comments I was only alluding that the pace of change which has been witnessed by the industry and global business and economies has been very fast and in a matter of 25 to 30 days majority or major changes in raw material or demand scenario can occur.

Ramesh: So but whatever the growth you have projected for the second half, to that have you already accounted the variation in raw material prices?

Kedar Vaze: At this moment no, we have indicated annualized YoY growth of 12% both volume and value so if there is a consistent erosion on raw material and we need to correct our selling prices in some cases, we will see some value drop we will try and compensate with increased volume sales, but as of now, we are looking at a steady 12% YoY vis-à-vis the last year.

Ramesh: Sir, is it fair to assume that if the prices move up gradually, then either price dropping down or increasing and transferring it to the customers happens without any problems. Is that is a correct assessment?

Kedar Vaze: That is correct. I think when the changes are like a plus / minus 30% in one month, we have to absorb the hit and we cannot do any changes to the clients. So we are basically working on a six monthly or an annualized average costing in our discussions with the clients.

Moderator: Thank You. The next question is from the line of Dhiral Shah from Phillip Capital. Please go ahead.

Dhiral Shah: What is our current capacity utilization?

Kedar Vaze: I think we have already put that out. The capacity utilization is roughly 50% for the Mulund and Vashivali facilities. We are at 75% for the other facilities and the Netherlands facilities is at a low production level at this point.

Dhiral Shah: With this current gross block which we have, what kind of revenue we can generate at optimum utilization?

Kedar Vaze: So the revenue to capacity mix in the industry for most of the formulation business is that 15% increase in the volumes gives double the revenue.

Dhiral Shah: So what would be the asset turnover?

Kedar Vaze: Roughly 1.5 to 1.7. We do not have asset turnover measurement as a very important criteria because investments are made on a two decade horizon. So in domestic fragrance, our last investment prior to this factory was in 1984 and we did our new investment in 2004 / 2007 period. In 2009,it was fully commissioned, since 10 years we are basically with the same facility and I think another 20 plus years, we will be able to sustain and continue the fragrance operations in the same facility.

Dhiral Shah: And sir just lastly why we need to keep an inventory of almost four months?

Kedar Vaze: See, this is the nature of the business. There are various products which are available only once a year. So we hold the inventory for the full year plus we are keeping normal two to three months of inventory of finished goods, raw material to offset the changes in terms of demand forecast, variability. We are relooking this as we speak and try and optimize and make it lean, but anyway between 90 to 110 days is a very normal working capital cycle for our business.

Dhiral Shah: So is there any chance to bring down the working capital days?

Kedar Vaze: We have already alluded, if you go back in history, we have been trying to look at 10 days per year reduction in working capital and we have been hit by the force majeure and unavailability of material in the last two years. We will try to bring down the working capital to 120, 130 days level over the next few quarters.

Dhiral Shah: And currently it is how much - 160 days?

Kedar Vaze: That is right.

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

Swarnabha Mukherjee: One question on your growth guidance just wanted to understand, whether this 12% growth guidance is coming from the demand resurgence that may happen in the FMCG industry going forward or so does it account for any additional volumes that you will get from the new wins that you have mentioned?

Kedar Vaze: I think the 12% is a combination of underlying volume growth of the existing business and number of new wins which we have already clocked in the last year. So everything which has started business in second half of the year, we will have a full year effect of that, plus the businesses that have been initiated and begun in the first half of this year, we will have the second two quarters. So I would think it is a combination of all these three factors. In addition, we have specific targeted wins or specific news wins of large volume which we are ready to be commercialized and any of them coming on stream will add a percentage point of growth for us.

Swarnabha Mukherjee: So just a follow up on that sir on the new segments that you have been entering in the recent times, would you able to guide on you know the kind of opportunity size that they may have which you might be able to capture on going forward so over a medium term horizon?

Kedar Vaze: So I think the question is how the consumers perceive these changes or new products. So potentially it could be very large business, maybe even potentially Rs. 250 to 300 crore of revenue. All the industrial products that we alluded are in a nascent stage and it really depends on the customer and the consumer feedback and how these products are appreciated, and they get picked up by the consumers, If appreciated by customers, the business on a full potential basis is easily Rs. 250 to Rs. 300 crore. We are quite conservative and look at next three to five year horizon where we look to do maybe 20% of that business.

Moderator: Thank you. The next question is from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.

Rohit Nagraj: Sir, in your opening remarks you have mentioned that during the first half our international sales have grown by about 20%, so what is the factor which is driving this particular growth and is it possible to maintain similar momentum in second half as well?

Kedar Vaze: So I think between the domestic and international, if you look at last year numbers, the domestic business had a very strong momentum in the first half, especially in the second quarter and the international business had momentum recovery in the second half of the year. So we are continuing with the international trend line and the growth vis-à-vis YoY comparison, I think in the second half, the international business will look at much bigger base. So we will see some returning to sort of lower number than the 20% in the first half. At the same time, the domestic base effect will mean that our growth rates and the domestic growth rates are higher for the second half and the international will look lower. But on the product by product, country by country, when you look at the product level, we are seeing strong double digit growth on both the segments - international as well as domestic – excepting that we have seen no uptick in Diwali or festival season which we normally expect in months of August and September.

Moderator: Thank you. I now hand the conference over to the management for closing comments.

Kedar Vaze: Thank you. I hope we have been able to answer all your questions satisfactorily. Should you need any further clarification 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. Ladies and Gentlemen, on behalf of SH Kelkar and Company Limited that concludes the conference. Thank you for joining us and you may now disconnect your lines.

-End-

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