December 06, 2018

To The Manager The Department of Corporate Services BSE Limited Floor 25, P. J. Towers, Dalal Street, Mumbai – 400 001	To The Manager The Listing Department National Stock Exchange of India Limited Exchange Plaza, Bandra Kurla Complex, Bandra (East), Mumbai – 400 051
Scrip Code: 539450	**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 19 earnings conference call for investors and analysts organized by the Company on Thursday, November 1, 2018 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

S H Kelkar And Company Limited
Lal Bahadur Shashtri Marg, Mulund (West), Mumbai - 400 080. Tel : +91 22 2167 7777
Regd. Office : Devkaran Mansion, 36, Mangaldas Road, Mumbai - 400 002. (INDIA)
Phone : (022) 2206 96 09 & 2201 91 30 / Fax : (022) 2208 12 04
www.keva.co.in
CIN No. L74999MH1955PLC009593

SH Kelkar and Company Limited

Q2 & H1 FY19 Earnings Conference Call
November 01, 2018

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 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, sir.

Anoop Poojari: Thank you. Good evening everyone and thank you for joining us on SH Kelkar and Company Limited's Q2 & H1 FY19 Earnings Conference Call. We have with us Mr. Kedar Vaze – Whole-time Director and Group CEO; Mr. Ratul Bhaduri – Executive VP and Group CFO and Mr. Shrikant Mate – VP (Strategy) of the Company.

We will begin the call with opening remarks from the management, following which we will have the forum opened 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 the opening remarks.

Kedar Vaze: Good evening, everyone and thank you for joining us to discuss the operating and financial results for the quarter and half ended September 30th, 2018. 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.

I am pleased to share that we have delivered healthy performance in the first half of the fiscal led by improving demand scenario and increased consumption trend in the FMCG industry. During the second quarter, we achieved a normalized revenue run rate, which essentially enabled the overall growth during H1 FY19. Our revenues from operations on consolidated basis stood at Rs. 518 crore in H1 FY19 as against Rs. 455 crore in H1 FY18, registering a growth of 14% year-on-year. Domestic revenue during H1 FY19 grew by 19% led by strong demand in the domestic market, especially in the second quarter. Q2 FY19 revenues came in at Rs. 282 crore, higher by 28%.

On the profitability front, EBITDA during H1 FY19 stood at Rs. 79 crore, with margins at 15%. Cost pressures on key raw materials impacted profitability during the period under review. We have already undertaken price increases to partially cover raw material inflation, however to normalize margins over the longer period, we will need further steps together with our customer. Our employee cost during H1 FY19 increased 10% year-on-year. Increase was partially due to one-time expense incurred in Q2 FY19 towards rationalization and closure of the unit in Barneveld, Netherlands. In Q2 FY19, EBITDA grew by 17% to Rs. 43 crore the margin stood stable at 15%.

Coming to our segmental performance, fragrance division delivered a healthy growth in H1 assisted by robust revival in the second quarter. In H1 FY19, Domestic fragrance business reported growth of 24% while overseas revenues grew by 3%. In Q 2 FY19, the domestic fragrance delivered a strong growth of 36%, translating into a consolidated segment growth of 31%. The overseas division also marked robust growth of 20% year-on-year. The ongoing volatility in raw materials prices resulted in subdued operating profit during H1, which stood at Rs. 66 crore against Rs. 68 crore in H1 FY18. Margin stood stable at 14% in H1 FY19. In Q2 FY19, operating profit delivered a healthy growth of 18% year-on-year and stands at Rs. 37 crore.

In our Flavor division, the revenue stood at Rs. 53 crore in H1 FY19, lower by 9% year-on-year. The domestic business in particular de-grew by 20% while overseas marked a growth of 12% during this period. During Q2 FY19, increased momentum has registered a healthy 24% year-on-year growth in overseas business. The domestic segment during the quarter de-grew by 3%. In H1 FY19, the segment recorded an operating profit at Rs. 6 crore, with margins at 12%. In Q2 FY19, operating profit stood at Rs. 2 crore. Raw material cost pressure continued to impact our profitability in this segment as well. We expect to report better results in H2 FY19 as compared to H2 FY18.

On the operational front, we are happy to share that we have formerly inaugurated our aroma ingredients unit at Mahad during the quarter. This plant has a total installed capacity of 1,200 metric per annum and is one of the largest manufacturing plant for Tonalid worldwide. The state-of-art facility will manufacture Tonalid and other key raw materials used in the fragrance industry. The commissioning is in-sync with previously announced strategic investment to shift production of Netherlands to a high quality operating efficient center in India. Additionally, we have optimized capacity in our other Tonalid manufacturing facility, which we acquired as Anhui in China at a nominal capex. The installed capacity of this Tonalid plant has been expanded to 400 metric tons from 300 metric tons at the time of acquisition.

At this time, there is a strong global demand for specialty chemicals. We undertake and foresee that the demand at both our facilities, in Mahad and in China, will allow SHK greater flexibility at its manufacturing operations leading to increased operating efficiencies. These facilities will also help strengthen our global market share in Tonalid. On the whole, we are witnessing a healthy revival in the demand environment and improved consumption pattern across domestic and international markets. The new product launches, particularly in FMCG industry, is showing robust traction and an improved macro environment, SHK is focusing on deepening its customer engagement and adding new products to positively impact growth, especially in the fragrance division. This, along with improving availability of key ingredients will enable us to further strengthen from an overall business performance in the second half of the current fiscal.

Before I close, I would like to cover some developments on the management team as well. The Board has accepted the resignation tendered by Mr. Ratul Bhaduri, Executive VP and Group CFO, who wishes to pursue career opportunities outside of the SH Kelkar. Accordingly, he shall be relieved on 3rd December 2018. The board would like to thank him for his contribution to the Company during his tenure and we wish him well in all his future endeavors. In addition, we are happy to share that the Board has inducted Mr. Shrikant Mate as Group CFO of the Company, in addition to his role of Vice President - Strategy.

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

Moderator: We take the first question from the line of Chintan Modi from Motilal Oswal Securities. Please go ahead.

Chintan Modi: On the domestic fragrance growth side, which did a fantastic growth this quarter, is this kind of momentum likely to continue in Q3 and Q4?

Kedar Vaze: I do not see any change in the demand scenario. We have always been maintaining and we continue to have strong demand for our products in the domestic fragrance market. The numbers are reflective of that, so we do not see any specific concern on the demand. As I have already mentioned and as we continue to face raw material headwinds, we will continue to monitor and ensure that we first prioritize our existing customers and maintain balance between growth and availability for existing customers.

Chintan Modi: Can you highlight whether this growth was from the existing products only or there were some new products also which contributed to the growth?

Kedar Vaze: I do not have exact breakup. Roughly 3% to 4% of the business in the year is coming out of new products, which are introduced in that particular year and we are continuing to see the same trend, there is no exceptional trend in this quarter.

Chintan Modi: On the margin side, by how much the cost basket on an average was higher for us during the second quarter?

Kedar Vaze: We are seeing roughly 30% YoY cost increase in the ingredients, in the raw material input that we have in an average basket. The actual number in the increase will be slightly lower due to the inventory that we are carrying through the period as we go. If I look at cost of average basket as on September 2017 and September 2018 in INR, this is roughly 30% increase. There is an additional ~10% of currency change which is also reflected in that number, but we have the inventory at the old cost and as it gets replaced, it will have a total impact of 30%.

Chintan Modi: We have also started Mahad plant so lot of manufacturing will also start shifting from Netherlands, which will bring in lot of efficiencies and cost savings. By end of FY19, what margins are you looking at as compared to the current level of margins?

Kedar Vaze: The last two quarters we have been selling from the stock and we have gross margin of excess of 70% for the specific product. When our Mahad unit is finally operational, we expect it to be below 60% at the gross margin level, somewhere around 55%, when it is fully commissioned and operational. We should have additional availability for sales as well. Today, we are limited in our ability to sell due to carrying forward the contracted stocks.

Chintan Modi: Any price hike that we have taken during the quarter? Also if you can highlight in H1, how much price hikes you would have taken and how much are we planning, going ahead?

Kedar Vaze: We have changed the business model to more frequent price discussion with customers and we have looked at customer-wise and product-wise discussions and negotiations, unlike previous cycles, where it used to be once a year discussion. We continue to engage with customers as and when there is acute short supply of raw materials. So, price discussions are an ongoing scenario this year as compared to once a year or twice a year phenomenon as was in history. So, we are talking with customers and updating them on the reality of the cost pressure and we have, by and large, very good customer relations and good customer support has helped us to tide this and they will continue to support us.

Chintan Modi: The borrowings have gone up during the quarter, so what will you associate that with?

Kedar Vaze: The entire Mahad plant commissioning, the acquisition in Anhui. We have continued to give the full dividend in this quarter and the additional investments in the employee benefit trust. So, all of these are large capex. In the operating side, we have continued to make a positive cash flow of ~Rs. 30 plus crore.

Chintan Modi: What is the average cost of debt?

Ratul Bhaduri: It would be in the region of about 5.5% blended.

Chintan Modi: So, this is foreign borrowings?

Ratul Bhaduri: It is a mix.

Moderator: We would take the next question from the line of Vicky Punjabi from JM Financial. Please go ahead.

Vicky Punjabi: On the fragrance side, revenue suddenly dipped in Q1 and then we saw a very sharp revival in Q2, so can you help us understand what really happened in these two quarters and the recovery that we have seen how much of that is led by the pricing effects?

Kedar Vaze: The net price increase on sales is somewhere around 9% to 10% on the blended basis for the first half. As I mentioned in the call last quarter, we had some execution challenges due to force-majeure declared by couple of Indian aroma ingredient suppliers, particularly in the month of May. So, we had some carry over orders in June, July and also in terms of seasonal demand for the festival season. We normally anticipate the second quarter to be stronger than the first quarter, this year as a basis and we would like to again remind and do advise the investors to look at H1 to H1 comparison as more indicative because typically quarter-on-quarter, in terms of festival season and demand does tend to move between the first and second quarter.

Vicky Punjabi: Now, we have a base that also catches up. The base is not as favorable as we saw in the first half, so how do you see growth in fragrance segment?

Kedar Vaze: Like for like, customer by customer, growth we are seeing in excess of 25%, 28% growth whereas some segments of pockets which have remained soft even in this period and we do not see a large concern on the demand. We are very much aware, at this point, we have very strong demand. We are being careful to execute the right kind of orders, keeping in mind with our long-term relationships and supply contracts and taking on growth in a rational manner. So, the demand is very strong so I do not see any concern in H2 FY19, once our Tonalid plant is up and running, which has started commercial production and the fact that we are now seeing better availability of raw material compared to first half of this year and last quarter of previous year. We will be able to execute more orders in hand.

Vicky Punjabi: The gross margin compression was sharper in Q2 versus Q1, whereas the belief was that the RM pressure that we saw in Q1 would probably subside or moderate a little bit in Q2. Is this led by further increase in cost or was there some mix play out here?

Kedar Vaze: As I mentioned in Q1, some of the low margin orders have been deferred so the supply lead times were higher and some of them have gotten executed in Q2. H1 FY19, as a whole, is representative of where we are operating.

Vicky Punjabi: What is the scope of recovery in margin that you see in H2 FY19?

Kedar Vaze: We have seen a large movement in the currency and we continue to hear specific news across supply chain of disturbances and force-majeure, so I want to be careful on giving any kind of guidance. With the Tonalid plant being operational, we will improve our gross margin by about 2% on the same product mix, which is expected to kick in from this third quarter onwards. So, 2% improvement will be an internal improvement due to the operationalization of the Tonalid plant and we will continue to have a dialogue with our customers and our vendors to ensure that we maintain a reasonable gross margin similar to 42%- 43% which is for the first half of this year.

Vicky Punjabi: On the capex front, because it seems to be much higher than what we were expecting - cash from investing activities is an outflow of Rs. 95 crore, can you help me understand where has this gone and how much was the Mahad plant capex?

Kedar Vaze: Though the entire cash flow, as I mentioned, we have got the Mahad plant operationalized, which is roughly Rs. 40 crore of capex in this quarter. The dividend which was paid to the extent of Rs. 30.5 crore and funding the employee benefit trust to the tune of about Rs. 8 crore, those are the major three plus we have Rs. 25 crore outgo on Anhui plant.

Moderator: We will take the next question from the line of Jignesh Makwana from Asian Market Securities. Please go ahead.

Jignesh Makwana: Last call, you had mentioned that some of the large accounts were doing pretty well and real pain was on the small accounts, so how was the phenomena in the current quarter?

Kedar Vaze: The large accounts continue to grow. We have seen some recovery of the smaller and regional accounts as well in the second quarter.

Jignesh Makwana: What is the current mix between the large accounts and small accounts, particularly in Indian operations?

Kedar Vaze: The current mix remains the same. In Q1, we had a higher skew towards large account and in Q2, we have pretty much higher sale on the regional and smaller accounts than what was in Q1. So, as a H1 FY19 to H1 FY18 comparison, we are back on the same basis. It is roughly 40% of large accounts and 30% in medium-size and 30% in retail and small.

Jignesh Makwana: What is the constant currency growth for overseas business, both fragrance and flavor for Q2FY19?

Kedar Vaze: So, the constant currency growth for entire business is 12.2% for the exports.

Jignesh Makwana: Can you give us separately for fragrance and flavor?

Kedar Vaze: I have only the numbers in INR so we will work and come back with these details.

Jignesh Makwana: In this particular quarter, we have quite a low tax rate, any specific reason for that?

Kedar Vaze: We have completed transfer of technology from Netherlands operation to Mahad operation so the IP transfer has happened. As a result of that, there will be a small taxation differential between India and Netherlands, which will accrue.

Jignesh Makwana: What should we consider as full year tax rate for our modeling purpose?

Kedar Vaze: Around 30% range is what you should consider.

Moderator: The next question is from the line of Nishna Biyani from Prabhudas Liladher PMS. Please go ahead.

Nishna Biyani: Could you highlight the raw material issues faced from China, Brazil and Europe, according to the raw materials which you source from there - what is the current status and what is the inflation there? Secondly, could you help us with some kind of a guidance for entire FY19 in terms of revenues that you are targeting because in the annual report, you had mentioned earlier that you are looking between 15% to 20% growth so does that guidance hold for the full year? Thirdly, when I look at SH Kelkar, which is currently the third largest F&F player in India, the margin between you and IFF is not much different, so when do you see SH Kelkar becoming the second largest in India?

Kedar Vaze: The question has two parts – one is on raw material scenario. I just want to explain that the raw material scenario is a dynamic scenario. We have seen unprecedented ups and downs and volatility in this market. Most of the raw materials, which faced the issue in September, October of last year are now back on track and we are seeing normalization in those raw materials. There continues to be a scenario where some raw materials, in particular supply chain out of China and a few products out of BASF factory, continue to be under force-majeure or difficult supply. All in all, the wave of major raw material supply disruption has eased, but I would say a large part is also because we have been able to move some of our capacities to Vapi to help the supply chain internally. So, for SH Kelkar, as a Company, we have been able to react to the changes and generate additional capacity for our own in-house consumption and to give you a magnitude - roughly 20 crore of material has been already produced which has been used in-house to ease the raw material problems for our industry. We will continue to monitor the situation on fortnightly basis and it is always an agenda point for the management team, every week, to look at the raw material, plan ahead and make sure that we deliver to all our customers as promised on time with the price which was agreed and so far we have been able to maintain that and we will continue to keep that.

The second question was in terms of revenue guidance - we are still very much the same at 15% CAGR long-term growth expectation. We relooked at the business model and pockets of growth going forward so we will focus our attention on the growth areas within South East Asia, India as the primary focus and continue to deploy more regional or local resources for gaining business.

On the third question, I do not want to comment on other competitors within specific regional and specific numbers since it is a listed global company, they report all the numbers on a consolidated basis, which we track. Within India, within their region, there are inter-company transfers and so on and so forth so I do not want to comment on competition with them. Our overall objective is to continue to grow our market share in the domestic fragrance market and outside India in both flavor and fragrances and we will track that as a market share of total market, independent of where other competitors come in. I am happy to inform to the best of our estimate, we are continuing to do market plus growth even in the previous six months, where overall the market has been very difficult.

Moderator: The next question is from the line of Jigar Jani from Edelweiss Securities. Please go ahead.

Jigar Jani: The net price increase that you have taken in H1 is 9% to 10%, is that correct?

Kedar Vaze: That is right.

Jigar Jani: So, considering that we have grown around 14% on half yearly basis, then that means a volume growth is only 5% for H1 FY19?

Kedar Vaze: That is correct. Just bearing in mind that we did not have sufficient stock on the Netherlands production because the production was stopped.

Jigar Jani: So, can we assume that we will play some catch-up in terms of volumes in the H2 FY19, which is why in spite of us having a very strong base in H2 FY18, we will still be able to do volume growth in double-digits?

Kedar Vaze: I think we need to take into account that in the particular months of May, June and July, the supply disruptions were quite acute and we were trying to manage to service all our existing clients without too much focus or too much attention on new growth. So, the numbers are reflective of the fact that we delivered 5%- 6% volume growth ensuring that all our customers are getting their material in full, without any constraints and delays. And at this point post-September, when the raw material supply situation has eased, we are ready to take on and grow the new wins that have already been substantial wins in H1 FY19. So, we will be able to take on more volume in H2 FY19 because the availability has eased.

Jigar Jani: So, this would be despite the strong base that we face, so we can still grow double-digit volumes on YoY basis?

Kedar Vaze: I think there are no constraints as we speak on volume growth. So, we were very conscious of ensuring that we do not miss out on any contract. We were less aggressive on new business growth from supply chain point of view. We have managed to service all our clients in full and we are now very strongly placed with the supply, with the inventory and the available material - both in-house and outside - to supply our customers' growing needs, if we have 15% volume growth in second half, then we are ready for it.

Jigar Jani: Regarding the cost that you took in employee expenses regarding the CDC at Netherlands, what would be the absolute amount, which was exceptional in employee expenses this quarter?

Kedar Vaze: It is to the tune of around Rs. 4 crore when converted to rupees and the absolute amount is in Euros, so whichever currency rate you take on the day or at the end of the period, it is around Rs. 4 crore.

Jigar Jani: When you said that there will be 2% margin increase from the Tonalid plant at Mahad, so was this only for the specific product or on an overall basis?

Kedar Vaze: On an overall basis, the impact of the gross margin improvement in Mahad will be a 2% improvement.

Jigar Jani: And that we will see starting from Q3 FY19?

Kedar Vaze: Production will begin in Q3 FY19, so from Q4, we will see the improvement. In spite that, this is an internal so everything else remaining like-for-like, we will have a 2% improvement and already between the end of September and today, the currency and various scenario of costs have changed so we are looking at that, we will talk with the customer and take appropriate steps. So, like for like, just a pure impact of the Mahad production is a 2% composite improvement in gross margin.

Jigar Jani: Any update on when the BASF plant is likely to start because internally they still seem to be nowhere near lifting the force-majeure?

Kedar Vaze: I have no specific details on that. They have indicated that Q4 of CY18, which is this quarter, they would lift the force-majeure on the stream of products, which they announced that was affected in the Q4 last year and there is another set of products, which is still under force-majeure and there is a new force-majeure announced by BASF on some other feedstock. So, we need to keep track of what is happening. As I mentioned, almost on a bi-weekly basis, we are tracking and adapting our supply chain and availability to match with that scenario.

Jigar Jani: This 9%-10% price hike that we took in H1, would we expect a similar price increase to follow in H2?

Kedar Vaze: The price increase is with a strong lag to the cost increase. So, we are hopeful that the customer will look into and we continue to negotiate and discuss for additional price increases wherever it is required, but the scenario between cost increase, price increase and the level at which the customer growth, we should see the stabilization of the gross margins around these levels of 42%- 43%. So, we started with 45%-46% last year and we had a couple of quarters, where it was sub-40% to 38%- 39% of gross margin. This first half, we are seeing 42% and 43% gross margin on a composite basis and we believe that this level, we should be able to sustain going forward and we will have to wait till we see the final numbers, but we are closely tracking this on every fortnight basis.

Moderator: The next question is from the line of Chirag Dagli from HDFC Asset Management. Please go ahead.

Chirag Dagli: Is there a loan mark-to-market in the interest cost?

Kedar Vaze: The overseas loan is largely linked to overseas euro or dollar sales. So, the loan is in euros and dollars and the sales are also in euros and dollars, so there is no mark-to-market write-off in reality.

Chirag Dagli: For the quarter, this interest is what we would actually pay?

Kedar Vaze: Foreign exchange gain on the sales and the interest marking-to-market has changed.

Chirag Dagli: Historically you have not taken 10% kind of price hike, but today for H1 FY19, you have taken 10% kind of price hike, given that there are macro factors at play, can you escalate this price hike that you are taking? So say, versus 10%, you take 15% or 20%?

Kedar Vaze: We are actually sort of maintaining our margin on a conversion basis to a certain extent. We are trying to translate and transfer the cost increases back to the clients.

Chirag Dagli: You mentioned about Rs. 20 crore worth of products that you have manufactured at Vapi facility, so this is for H1?

Kedar Vaze: That is correct. So, in-house consumption of around 20 crore has been additional for us, internally.

Chirag Dagli: If I annualize this, then this will be like Rs. 40 crore worth of products which until last year you were not manufacturing on your own, but now you are doing it at your own?

Kedar Vaze: I would not annualize it because if the availability of these products is again smooth, we will buy from the market, but the impact of cost increase vis-à-vis comparable market price, we have been able to soften the impact by making this Rs. 20 crore worth of products ourselves. If we had not made this, we would have had another Rs. 5 odd crore hit on our bottom line.

Chirag Dagli: How much more can you do at Vapi in terms of capacity or in terms of more products?

Kedar Vaze: Capacity utilization at this point is roughly around 80% to 85% so we have not too much headroom in terms of product capacity, but we have multipurpose plants, so we are in a position to change the product mix quickly to look at products, where there is a supply chain or a price advantage or a disturbance in the market and manufacture those in-house.

Moderator: Thank you. I would now like to hand the conference over 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 we conclude today's conference. Thank you all for joining us, you may now disconnect your lines now.

-End-
