Keva

June 11, 2018

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 hereby submit transcript of Q4 & FY18 Earnings conference call for investors and analysts organized by the Company on Friday, May 25, 2018 at 05.00 P.M. IST.

You are requested to take note of the same.

Thanking you,

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

S H KELKAR AND COMPANY LIMITED
MUMBAI
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Deepti Chandratre
Company Secretary & Compliance Officer

Enclosed: As above

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SH Kelkar and Company Limited

Q4 & FY18 Earnings Conference Call Transcript
May 25, 2018

Moderator Ladies and gentlemen, good day and welcome to SH Kelkar and Company Limited 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 a 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.

Anoop Poojari Good evening, everyone. Thank you for joining us on SH Kelkar and Company Limited's Q4 & FY18 Earnings Conference Call. We have with us Mr. Kedar Vaze – Whole-time Director and CEO; Mr. Ratul Bhaduri- Executive Vice President 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 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 evening, everyone. Thank you for joining us to discuss the operating and financial results for the quarter and full year ended March 31, 2018. I will begin by taking you through the operational and financial highlights of the quarter; we will then look forward to taking your questions and suggestions.

Overall, we have reported a stable financial and operating performance during the year despite facing a very challenging environment in the domestic markets in H1 FY18. Before getting into the financial performance, let me briefly cover the macroeconomic operating landscape. After a muted first half, the Company witnessed a strong growth in H2 on the back of healthy demand recovery in the FMCG industry. With the demand environment further improving, we are confident of reporting normalized growth rates in the coming fiscal. In the year, we have also witnessed an unprecedented level of raw material disruption in the fragrance and flavor industry. As communicated to you earlier, this was primarily led by interruption at facilities of major producers; amidst this, our efficient inventory management practice has held us in good stead and is helping us to maintain supplies to our customers. Furthermore, we are regularly in close dialogue with our key customers to keep them apprised on the situation.

Despite the challenging raw material environment, I would like to highlight that we have retained market share across all product categories. We believe this disruption, which is transitory in nature, would still last for a few more quarters. Against this backdrop, the Company reported a steady performance. I'm happy to share that SH Kelkar achieved a major milestone in its journey by crossing the Rs. 1,000 crore revenue mark in this year. On a consolidated basis, our total revenue from operations in FY18 stood at Rs. 1,019 crore, up 5% year-on-year, domestic revenues grew by 7% in FY18. As we witnessed a strong recovery in demand in the second half, in H2 FY18, our revenue stood at Rs. 565 crore, marking an increase of 18% as against H2 FY17. Q4 FY18 revenues came in at Rs. 283 crore, higher by 15% YoY. In the second half of the year, the Company incurred one-off expenses of Rs. 18 crore which impacted profitability. One-time expenses include Rs. 13 crore outflows towards the operational reorganization of the facility in Netherlands and Rs. 5 crore of cost towards the recent acquisition and newly established Fine Fragrance Development Center. These cost savings and business initiatives have not contributed to the performance yet and we anticipate them to start contributing to the Company's earnings in the coming year.

Adjusted for these one-off costs, our operating EBITDA stood higher by 6% to Rs. 189 crore from 177 crore in FY17. Gross margins during the year stood at a steady level of 45%, despite raw material disruption. The Company expects to sustain similar levels from a longer-term perspective, excluding any quarterly variation owing to sharp volatility in the raw material prices. Adjusted PBT stood at Rs. 161 crore, up by 5%. In Q4 FY18, operating EBITDA was higher by 16% at Rs. 48 crore, PBT, adjusted for one-time expense, stood at Rs. 39 crore which is up by 14%.

Coming to the segmental performance; the Fragrance division delivered a strong performance during H2 FY18, registering revenue growth of 23%. In FY18, the revenues of the Fragrance business grew by 7% YoY, with the healthy growth of 13% in operating profits. During FY18, domestic revenues performance grew at 8%, while overseas revenue grew by 3%. Our Flavors division however reported subdued performance in FY18 owing to weaker demand in the overseas market, especially in the Middle East market. Moreover, pricing pressures and ongoing raw material disruption further impacted the performance in the domestic market. Overall, the year has been a challenging period for us and we have utilized the situation to work on opportunities that strengthen our operations.

Coming to one of the major developments; I'm happy to share that we have acquired a majority stake in Anhui Ruibang Aroma in Q4 FY18. Anhui is a leading aroma chemical company in China. We will be acquiring 90% equity stake within the next 18 months. In the first time, the Company would acquire 66.7% stake for approximately Rs. 19 crore. In FY 2017, Anhui reported revenues of approximately Rs. 17 crore. We propose to fund the entire investment through internal accruals. This acquisition will give us an additional manufacturing facility for ingredients, especially during a time when the organizational reorganization is in place. By way of this acquisition, we will ensure that there is no supply disruption to customers and it will enable us to consolidate our market leadership for Tonalid, i.e, the set of Musk products. Further, we will be spending Rs. 7.6 crore at Vapi which will augment the capacity of the aroma ingredient division to make our supply chain very agile to tide over the current disruptions in the key raw materials. I may add that our facility in Mahad, which was an investment that we undertook in H2 FY17, is proceeding as per schedule and we expect it to be commissioned and operating in terms of cash flow in H2 FY19, as planned earlier. Our entire endeavor is to maintain the supply chain in this very difficult juncture, when the prices and availability of raw material is a key differentiator, we will be able to tide over this in the best fashion through this year.

To conclude, we are putting in multiple building blocks in place such as strengthening our product offering, working on several cost-saving measures and improving operational efficiencies, particularly with respect to supply chain management. Investing in R&D capabilities continues and this we believe should enable us to see tangible benefits in the second half of FY19 onwards.

Before we conclude, I'm happy to share that the board of directors has recommended a final dividend of Rs. 1.75 per share. 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. Ladies and gentlemen, we will now begin with the question and answer session. We take the first question from the line of Lakshminarayanan KG from Catamaran Capital. Please go ahead.

Lakshmi Narayanan The first question is related to the recent acquisition of Tonalid, now if you can just help me understand what's the total capacity of Tonalid including our existing plant? What percentage of global capacity we will be operating at and what kind of growth is there in Tonalid over the last 2 years or so? What's the PFW revenue for FY18 and what is the domestic Fragrance business for us and what are the Fragrance exports?

Kedar Vaze PFW revenues are something which I will first address. It is part of our total revenue stream in fragrances, so it gets manufactured, products keep moving from Vapi production, Mahad production and Barneveld production. So PFW revenues are not really representative on a standalone basis. I wouldn't want to comment on that. The detailed numbers will be available, but they are not representative of any momentum or any indication of the actual business. Coming to the question on Tonalid, the total global estimate that we have for this market is anywhere between 1,400 and 1,500 tons. We have been market leader in this market for many years and our capacity in the past in the Netherlands factory has been anywhere between 1,200 to 1,500 tons based on various raw materials. So different materials give you different yields, but on a low side 1,200-1,250 tons and on a high side 1,400 tons was our operating capability in the plant in the Netherlands. In the recent past couple of years, we have been maintaining roughly 950 to 1,000 tons of market as our market share and in between 300 and 400 tons has been market share of competition, which is a best estimate that we have. Recently since last six months, the environmental concerns have asked many of the chemical producers in China to close down or to make substantial investments in environmental treatment. With this, we understand that today in the entire marketplace, we or Anhui is the only continuously operating plant since we had closed down our Barneveld unit with the stock in hand and we are investing in our Mahad unit. So as a result of this acquisition, we will have a total capacity of 1,250 tons on a 1,400 tons odd market post the full capacity in Mahad coming on stream as well.

Lakshmi Narayanan What is the end market growth of Tonalid taking place in terms of tonnage?

Kedar Vaze It is very difficult to estimate exact number since we also have China export data and import data and other manufacturers. But we estimate it to be growing at 3% to 4% per annum in the last 3-4 years and to be around 1,400 tons in this year.

Laxmi Narayanan The compelling reason for acquisition, is it because the asset was available at a cheaper price because of distress or is it that you are actually replacing your capacity, can you just elaborate on that?

Kedar Vaze It is two-fold , one is a business risk BCP proposal because we have isolated one plant and we are now operating in two countries with two plants to enable our customers to have a better confidence. If you recollect our discussions on raw material and even as we speak, these are large disruptions which are unprecedented and the supply chain of every company is now looking for multiple production sites to guarantee supply. So that prompted us to expedite this investment. In addition, the market prices of many of these products, including Tonalid, are at unprecedented highs, so as of now, as we speak there is a short supply and a very high price scenario. Although we are committing and continue to maintain our contracts to our customers, the market dynamics are such that it's a very attractive pay back at this point.

Laxmi Narayanan What kind of EBITDA this plant is generating?

Kedar Vaze I wouldn't look too much at their revenue as a benchmark because it's a facility. It's an investment such of Rs. 19 crore now and it's a sourcing augmentation to our manufacturing Tonalid facility. On a combined basis, we will be in a position to offer 1,250 tons instead of 1,000 tons in the previous year. So we will add 25% revenue volume and at a better overall margin and overall price realization than what we have been.

Laxmi Narayanan There is a PFW angle so what is the like to like Fragrance domestic revenue expansion for us because we did close to around Rs. 600 crore last year.

Kedar Vaze We did Rs. 570 crore domestic Fragrance last year and we did a total of Rs. 620 crore approximately for this year.

Laxmi Narayanan What has been the exports in Fragrance?

Kedar Vaze There is basically international Fragrance and domestic Fragrance in the reporting. The subsidiaries have been merged effectively last year. The segment reports are out; the numbers are there I don't really understand what the question is.

Laxmi Narayanan Even last year, from PFW financials, which was around Rs. 150 crore and then Fragrance exports was around Rs. 120 crore so if you combine that's around Rs. 270 crore, so from that aspect what has been the growth if you actually put PFW and Fragrance exports together. If it is not the right way to look at it, then what is the better way to look at these numbers? For Fragrance international, what is the better way to understand the traction of the business?

Kedar Vaze The Fragrance Division has grown by 7% from Rs. 851 crore to Rs. 907 in this year.

Moderator We take the next question from the line of Prakash Kapadia from Anived Portfolio Manager. Please go ahead.

Prakash Kapadia On the domestic FMCG side, what are clients telling us, what kind of confidence they are giving us for higher growth in FY19? You did mention second half has been better, so if you could give some perspective on that, that will help.

Kedar Vaze A lot of the stalled projects, which were products that were approved but did not see the launch, they have been launched and this gives us a very good visibility in terms of what will be the revenue pick-up. I also see that on the supply chain side, we are amongst the best and we have continued to deliver material on timely schedules with the discussion with our customers in the best manner. And wherever there were additional costs of delivery or changes, we have been able to transparently pass it on and discuss with the customer and find a solution. I believe that this has definitely been a very-very healthy period of supply for our Company given the circumstances, so vis-à-vis competition, vis-à-vis the market situation, we are able to supply in reasonable time with the full confidence to our customers, despite the additional disruptions in February and April this year, which has happened in the ingredient businesses. The confidence from our customers is very high. We continue to have good strong win ratios in the last 3 to 4 months. We continue to see strong business and repeat business for new products and we are with our Amsterdam center, able to attract global customers including large MNCs in addition with the Italian acquisition we have accessed, and we are already working with our global MNC in European context. I think all the signs, all the investments and the efforts that we have been undertaking over the last year, we are seeing signs of it converting into revenue and it is a very positive indication in the year to come.

Prakash Kapadia Given our R&D spends, given the acquisitions that we have done, multiple operations, de-risking, global centers, so what are we doing to bring predictability to our business and reduce volatility because all these edges, which we are trying to create at some point of time they have to lead to higher visibility or lesser volatility for our business because that's the objective. I know it's a very tough business, so how do we get there?

Kedar Vaze The business is not very volatile when you look at the timelines on an annual basis. This is not a business you should look at on a quarter-on-quarter. We are not a service industry or IT company, where we can have a quarter-on-quarter change in business. Any change in the business environment takes one or two years for the management or the business to fructify, so we are taking the steps for the next growth and you will see that coming on a very predictable growth path, we have always indicated an ambition to have a 15% CAGR growth and we are on that track. If you compare quarter-on-quarter and very short period, you will see volatility, on a longer track, we continue to be very stable and growing.

Prakash Kapadia The volatility and the input cost, so what trends are we seeing, how are we deciding on further inventory buildup, are we taking shorter-term calls given whatever is happening in the market environment? Currently, how are we planning for a inventory built-up?

Kedar Vaze We have a long-term approach to inventory in terms of contracts in buying and contracts on selling, in terms of selling price and buying price. So this model continues, it is again a long-term model on an average of six months or one year you will see no volatility. If you look at quarter-on-quarter, particularly in quarters like the fourth quarter when the selling prices are normally revised, you will see a very big change in the gross margin in that specific quarter because we continue to sell at old selling price and cost structure have revised and the next quarter, it will normalize. So over a moving average, 3-4 quarters average, you will see very steady and stable business.

Prakash Kapadia And we have already communicated to some of our clients about some of these pricing changes?

Kedar Vaze We have always maintained a full transparency with the client and we get the pricing in the discussions with the clients.

Moderator We take the next question from the line of Jaykumar Doshi from Kotak Securities. Please go ahead.

Jaykumar Doshi One on this unprecedented RM volatility, which is essentially inflation, and we have seen a significant gross margin erosion in this quarter and while you do maintain that one should look at this business from a 3 to 4 quarters standpoint, what will help is if you could provide some visibility on how do you see gross margins moving in the next 12 to 15 months, how long would it take for these to normalize back to mid-40s if that is still the normalized level or would you say the new normal is slightly lower?

Kedar Vaze We will be at mid-40s in the immediate basis on the impact of price increase, even in the first quarter, we will be close to the long term trend. Q4 has been an exceptionally high inflation quarter, with supply disruptions in materials which were not available, or which were priced 5 times-10 times than normal price. So it's not really inflation, it was completely unavailable and it has completely changed for many of the bulk products. So it's not fair to say it is inflation, there is underlying inflation which we all know and which we all track and plan for. But if you typically have a product which is $6-8 and that becomes $40 in two months, then it's not really inflation.

Jaykumar Doshi What is your sense on when some of these large RM facilities are going to come back?

Kedar Vaze It will take 6 to 9 months for everything to get to reasonable normal levels. As we talked earlier, we have invested almost Rs. 25 crore – Rs. 18-19 crore in China and another Rs. 7.5 crore on environment treatment in Vapi, which allows us to produce many of these difficult items in our backward integration. So whilst the market may have gone up by 5 times or 6 times or multiple times, we will have a 20%-30% cost increase and we will be able to produce these in our own facility and with excess capacity, we may even offer to sell in the market. We are in a very strong position vis-à-vis supply in relation with these products because we are backward integrated and we can change our manufacturing facility to start producing some of this product.

Jaykumar Doshi When you say you are in a strong position, I'm assuming you're talking more from a relative basis versus competition. Has the situation helped you win a specific logo, has the situation worked in your favor in terms of winning a new account that you would talk about?

Kedar Vaze We are very clearly seeing traction of repeat sales, where typically we understand from the market comments that people are switching to us in terms of supply, guarantee or customer satisfaction vis-à-vis others in the market place. If you look in absolute terms, we probably are at 90% supply service level than what our normal basis is. But many companies are unable to supply for long periods or unable to match our supply at this time. So we are not caught out unawares, we have already taken steps well in advance using our Vapi facility and our knowledge on the backward integration to enable us to produce. Just as these disruptions are very acute, our plans have been always to have a risk mitigation strategy.

Jaykumar Doshi One quick bookkeeping question, what explains the sharp jump in other income during the quarter to about Rs. 15 crore? The normal run rate has been between Rs. 3 crore to 5 crore, this quarter we saw Rs.15.4 crore of other income.

Kedar Vaze These are actually in terms of provisioning. Large part of that in the closure of the plant, we have at various provisioning in terms of facility, in terms of people, retirals or its gratuity and so on and so forth. There is a reversal of provisions

Jaykumar Doshi Reversal of provisions which you have accounted for other income and not in normal OPEX?

Kedar Vaze It's the accounting standard

Jaykumar Doshi Can you quantify what is the regular treasury income versus these provision reversals that will help a lot?

Kedar Vaze We will send out the details.

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

Vicky Punjabi On the Flavor side, we have seen for the second consecutive quarter that the performance has been very subdued. In this quarter, we have seen a very sharp decline. What was the reason for this decline? On the capex, it has jumped significantly this year at around Rs. 122 crore in FY18 and probably another Rs. 100 crore in acquisition, can you just give more details on that?

Kedar Vaze Rs.122 crore of capex is including the acquisition and the investment. We have three major CAPEXes which we have done, part in last year and part in this year. One is the investment in the Mahad facility, which is Rs. 30 crore as of last year and remaining Rs. 40 crore would be invested in this year. We have acquired an additional office space at Rs. 32 crore in the beginning of last year, where our research center has been expanded in Mulund. Barring this, the large acquisition has been the total cost of the acquisition of Rs. 100 crore.

Vicky Punjabi On the Flavor side?

Kedar Vaze We have about Rs.5 crore odd CAPEX on the Flavor expansion.

Vicky Punjabi On the flavor side, why the performance has been so subdued?

Kedar Vaze If you look at the break-up, the domestic Flavor has done about the same revenue as last year. First half of the year, we did lesser revenue and second half we have been in normal growth trajectory. The international Flavor has been subdued this year vis-à-vis last year, but we have seen a longer-term trend in the international Flavor, particularly where we see one-year additional growth and other year, a little lower growth. So to give you a perspective in FY16, domestic Flavor was at Rs. 26 crore, we are at Rs. 61 crore in FY18 and international Flavor was at Rs. 33 crore in FY16, we are at Rs. 48 crore in FY18. Although last year, we had a very strong traction in international flavors and we clocked at Rs. 59 crore. The underlying CAGR growth for international flavors and domestic flavor has been in excess of 25%, organic and we continue to see that. If you look at the specific on Q4, we have certain businesses where we had a supply raw material issue, particularly in citrus oils and we are in negotiation and discussion with the customer and that business, basically at this moment, was subdued in the second-half of the year, particularly in the fourth quarter. So we see that this will play out till the new raw material reality comes into picture and then the business will restore sometime in the second quarter of this year.

Vicky Punjabi On other expenses for the quarter, which have actually jumped to Rs. 53 crore. So in this Rs. 53 crore, how much was the exceptional part of it?

Kedar Vaze We have an exceptional cost of roughly Rs. 5 crore in terms of the acquisition itself and the Amsterdam facility. So these two new things, which we did in the last part of the year is about Rs. 5 crore.

Vicky Punjabi Totally out of Rs. 53 crore, Rs. 5 crore was exceptional, the balance Rs. 48 crore is normal run rate?

Kedar Vaze That's correct. We were also spending on acquisition discovery and the detailing and now that Anhui transaction is announced, maybe it may get reinstated. But these are expenses towards strategic and merger acquisition and new ventures, non-operating basis.

Vicky Punjabi So you are saying that the run-rate could be lower than Rs. 48 crore, going forward?

Kedar Vaze Yes.

Vicky Punjabi You said that you will be back to mid-40s by Q1 FY19 itself. I just wanted to understand if the raw material inflation is temporary in nature and are you still changing your contracts to pass on that inflation?

Kedar Vaze No, so the raw material situation is not temporary in nature. The inflation is part of it and then there is an additional volatility on top of that, because of shortages or disruption in supply. We pass on and we discuss with the customers and we have done that in last quarter, where part of the cost increases have been passed on. We will continue to do that with 1 or 2 months time gap in continuous discussion with our customers. The fourth quarter typically is where the maximum impact comes in terms of margin because the whole impact of inflation vis-à-vis and the new selling price typically kicks-in in the first quarter.

Moderator We take the next question from the line of Palak Agarwal from AlfAccurate Advisors. Please go ahead.

Palak Agarwal In the Fragrance business, what is our product mix in terms of industry classification?

Kedar Vaze We are present across all categories, beauty, hair-care, soap, detergent, and so on and so forth so we are present across all categories of Fragrance business.

Palak Agarwal How much percentage for each industry?

Kedar Vaze We don't have the exact numbers to give you for that unfortunately because many of our products are multi-usage products, so people buy and they can use in detergents or they can use it for Agarbatti or they can use in various cosmetic products. So it's very difficult for us to ascertain as a total mix, where the product is being used. In terms of the larger products, we track our market share in the larger companies where there are key accounts and national accounts and typically we are almost 35% of the market share across all categories in the non-global MNC business.

Palak Agarwal We have earlier said that 15% to 20% is our long-term expectation of growth. But if we see in FMCG, volume growth is around 10% to 12% and for international business, it is 4%-5%. So if we take on a blended basis, it will be 8% to 9%, what will be our expectation right now?

Kedar Vaze You are very right on the volume growth numbers of 10%-12% domestic and 5%-6% in the exports. Particularly in the export, our market share is very small, so there is very large headroom for us to grow in terms of our market share over and above the market growth. And in the domestic, there is a volume growth plus there is a value upgradation, so premiumization as they call it in the FMCG and that will enable us to have a faster growth than the volume growth.

Palak Agarwal So we will grow more than FMCG?

Kedar Vaze In terms of value, yes, in terms of volume, no.

Palak Agarwal So what will be like 15%-20%?

Kedar Vaze We are targeting long-term 15% CAGR growth for our business including Flavor side, which should grow at a faster track since we have a small market share.

Moderator We take the next question from the line of Jigar Jani from Edelweiss. Please go ahead.

Jigar Jani Just wanted to know on your CFF acquisition, so this Rs.1.61 crore of net profit from associates is from the CFF acquisition?

Kedar Vaze That's correct.

Jigar Jani And that includes the entire quarter of profits?

Kedar Vaze Its part quarter, roughly 2 months and a few days.

Jigar Jani Can we expect like the similar run-rate to continue overall in the next year as well?

Kedar Vaze I would believe so. Given that the raw material situation, we will be able to mitigate in the first quarter of this year, we will expect the same.

Jigar Jani Considering that we are doing so much initiatives in relocating from Netherlands to Mahad and other operational initiatives, long-term gross margins would stay at around 45% or there is a scope for upgrade in that as well maybe in FY20 or 21?

Kedar Vaze Yes, for the long-term, the gross margins will upgrade. The main issue in terms of the Netherlands was not so much of the gross margin but the operating cost, so the gross margin on a longer-term will improve because the premiumization of products and not so much because of the Netherlands move, but the overall operating cost will come down.

Jigar Jani What kind of basis points improvement can we expect from premiumization and by when can we see some actual numbers flowing in it to the P&L?

Kedar Vaze We are already seeing the effect of the premiumization. Unfortunately, there is very strong volatility on the raw material so underlying the quality of the business has already improved and it will typically be about half a percentage point year-on-year to be around the 48% gross margin level.

Jigar Jani So 50 bps improvement every year till we reach 48% is the target, is what we are looking at?

Kedar Vaze It is what we expect.

Moderator Next question is from the line of Keyur Pandya from Prabhudas Lilladher. Please go ahead.

Keyur Pandya There will be some volatility in the raw material prices which you will pass on with some lag, so what is the visibility over next one year or so especially on the volume front as we are seeing very good volume growth in Indian FMCG companies, are you seeing some pickup?

Kedar Vaze The pickup is definitely there. If you take an average of the calendar months - six months, there is definite sign of pickup. Jan-Feb-March quarter has been a very strong quarter. And with the seasonality, the summer products and then normally there is a dip in the mid-calendar year and we will see the pickup in the second half again. We have a very good visibility on product wins and the kind of momentum on the product side. We are very buoyant on the upcoming financial year, particularly the second half of the year.

Keyur Pandya One bookkeeping question, the share of profits from associates from the CFF is around Rs. 1.5 crore. We can realize it to around Rs. 5 crore or something for the entire year from next year onwards, is that right?

Kedar Vaze It's Rs. 1.6 crore for a quarter, so mathematically, 4x of Rs. 1.6 crore, it will be Rs. 6.4 crore. Thereabout, we should be able to get the profitability.

Keyur Pandya Is there any other exceptional cost which is yet to be incurred for the restructuring of our Netherlands facility, which will keep on coming to our P&L on the exceptional basis?

Kedar Vaze No, there is no exceptional cost, which is to be incurred on Netherlands and/or any acquisition. So whenever that event has taken, we take the full cost and estimated provisioning for all other exceptional costs at the same time.

Moderator We take the next question from the line of Lakshminarayanan KG from Catamaran Capital. Please go ahead.

Laxmi Narayanan On the consolidated balance sheet, there is something called equity accounted investee of around Rs.95 crore, if you can just explain what that is? If you look at your investment property of around Rs. 14.3 crore, can you just help me understand what that is and there are also intangible assets under development.

Kedar Vaze Of Rs. 95 crore that you mentioned, Rs. 93 odd crore plus Rs. 1.6 crore profit incurred on the investment, this is in relation to the Italian acquisition, which is held as an investment. The other point was we had acquired roughly Rs.28-29 crore worth of office space where we have put the CDC. In keeping with the cost-cutting measures that we have undertaken this year, we decided not to implement the full plan but only initiate the first half of this CDC growth, since we had a muted growth first half of last year. We have hired or leased out one of the floors, which was originally planned to be the CDC to a third party, so to that extent the product capitalized in use investment has now been shown as investment in property, which will, in 1 or 2 years' time, when the lease runs out, be the growth area for the expansion of CDC. On the Intangible assets under development, it's a normal accounting which we have adopted last two years, where products that are sort of under development are being capitalized or CWIP and on completion of the project cycle, we are either taking it in a win or a loss and then expensing it. That's the normal accounting basis.

Laxmi Narayanan Any service income that we got in FY18? Last year, it was close to around Rs. 42 crore

Kedar Vaze Given the post GST scenario, most of the larger customers have indicated that they would be in a position to do it themselves, if there is no implication on various interstate tax and so on and so forth. It has got uniformed, they are in a better position to manage their supply chain. So to answer your question, we have a total of Rs.40 crore odd service income in H2 FY18, so we have roughly Rs. 15-16 crore average for this year of service income. But effectively starting this quarter, the service income will substantially reduce and I don't have the exact number but we would estimate over 90% reduction of service income.

Laxmi Narayanan What is our revenues from these B2C small packs and our revenues from ingredients for FY18?

Kedar Vaze It continues to be a growth business. It will continue to grow in the same line, so I don't see it has changed much from the 7%-8%, which it has been in the last 2-3 years. So it is growing at the same rate as the rest of the business.

Laxmi Narayanan So the small packs and the ingredient business, how large are these two?

Kedar Vaze Ingredient business is difficult to ascertain because we have intercompany internal use as well.

Laxmi Narayanan Small pack is 8% of your total revenues?

Kedar Vaze Yes, 7% of the domestic Fragrance business.

Laxmi Narayanan Your domestic Fragrance is Rs. 620 crore, so 7% of that is small pack?

Kedar Vaze That's correct.

Moderator Thank you. Ladies and gentlemen that seems to be the last question. I would now like to hand the floor back to the management for their closing comments.

Kedar Vaze Thank you. I hope I have been able to answer all your questions satisfactorily although there was some confusion on the questions, in terms of accounting. I hope, we will be able to answer. For additional queries, if anybody has queries, please send it in and I hope the same can be answered in a clear manner. I just want to add that we have already indicated that the buoyancy in the business, the momentum is very encouraging and particularly in H2 FY19, our entire Rs.100 crore odd investment from last year and the two proposed investments which were announced today will come on stream. So, we see there are very strong indications and a very strong buoyant business momentum. Once again thank you all. I hope I have been able to answer your questions satisfactorily and should you have any further clarifications or would like to know more about the company, feel free to contact our team or CDR India. Thank you once again for taking the time to join us.

Moderator Thank you. Ladies and gentlemen on behalf of SH Kelkar & Co Ltd. that concludes this conference. Thank you for joining us, you may disconnect your lines now.

- ENDS -

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