



August 20, 2021

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 Q1 FY 22 Earnings conference call for investors and analysts organized by the Company on Monday, August 09, 2021 at 02:00 PM IST.

You are requested to take the same on record.

Thanking you,

Yours faithfully,

For **S H Kelkar and Company Limited**



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



S H Kelkar & Company Limited Q1FY22 Earnings Conference Call August 09, 2021

Moderator: Ladies and gentlemen, good day and welcome to S. H. Kelkar & Company Limited Q1 FY22 Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, 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, Mr. Poojari.

Anoop Poojari: Thank you. Good afternoon everyone. Thank you for joining us on S H Kelkar & Company Limited's Q1 FY2022 Earnings Conference Call. We have with us Mr. Kedar Vaze – Whole-time Director and Group CEO, Mr. Shrikant Mate – EVP and Group CFO and Mr. Rohit Saraogi – EVP and Group CFO (Designate) of the company.

We'll 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 maybe forward looking in nature and a disclaimer to this effect has been included in the Earnings Presentation shared with you earlier. I would now like to invite Kedar to make his opening remarks.

Kedar Vaze: Good afternoon everyone and thank you for joining us on our Q1 FY22 earnings call to discuss the operating and financial performance for the quarter. I trust that you and your families are safe.

We have reported a resilient performance during this quarter despite a challenging macroeconomic environment due to pandemic-induced lockdowns and restrictions. While we saw broader operating constraints during the period, our client engagement and wins across the FMCG space remained stable. On the international business front, we are happy to share that CFF and Nova both delivered a healthy performance on back of improving demand and volume offtake in the European markets.

On a consolidated basis, our revenue from operations stood at Rs. 354.9 crore. The performance includes consolidation of CFF and Nova in Q1 FY22 and is not comparable year-on-year. On a like-to-like basis, revenues grew by 44.4%. This was on account of lower base in the corresponding quarter last year. During the quarter we continue to witness cost pressures on account of inflation in raw

materials, especially cost in logistics and supply chain. Accordingly, we have undertaken suitable price hikes. This in combination with our prudent inventory management practices enabled us to report stable gross margins at 42.2%.

On the EBITDA front, lower revenues moderated EBITDA performance. In addition, our other expenses during the quarter were higher as it included one-time preponement of R&D CWIP amounting to Rs. 12.9 crore on account of accounting policy change. This change was mandated due to more and more exchange of IP usage between India and Italy operations. Without this adjustment EBITDA margin stood at 16.1% and PAT stood at Rs. 27 crore.

On the tax front, I'm happy to share that we have a favourable update on the tax appeal in the matter of our wholly owned subsidiary Keva Fragrances. Recently the Income Tax Appellate Tribunal (ITAT) as per its recent order set aside the order of the Commissioner of Income Tax and has directed the assessing officer to allow amortization of goodwill as an eligible expenditure. The tribunal has also squashed the department's appeal on the other two issues favoring by the CIT earlier. Consequently, we have reversed the additional tax provision aggregating to Rs. 64.5 crore for the period between FY17 to FY21. Our reported PAT this quarter has come in at Rs. 81.4 crore. Excluding this onetime reversal and effect of expense preponement, the adjusted PAT stood at Rs. 16.9 crore.

From a consolidated balance sheet perspective, our net debt position was comfortable at Rs. 386 crore with a net debt to equity at 0.4X. The payment for acquisition of Nova in April, 2021 of approximately Rs. 25 crore led to a slight increase in debt of Rs. 6 crore as compared to March 31st position. As communicated earlier, in FY22 we have no major CAPEX plans on hand and the focus remains on generating healthy free cash flows which will enable us to further strengthen our balance sheet position.

Coming to some key business updates:

As you all know the unprecedented rains in Maharashtra in July caused severe flooding in certain areas. Unfortunately, our unit in Mahad was severely affected due to these incessant rains, which resulted in flooding and major outage in our facility and region. As per our assessment, the factory operations at Mahad are likely to remain suspended till end September. However, we are undertaking all necessary steps to resume operations at the earliest and also have recently completed the survey with the insurance team. Overall insurance cover being sufficient we would have no long-term effects to our financials. We are implementing our business continuity plans and planned additional volumes in the China plant. As a responsible corporate citizen our company has also allocated Rs. 75 lakhs from its CSR budget to local NGOs and Government organizations for carrying out flood relief work in the affected region of Mahad.

Health and safety of our employees and communities is a key focus area for us. As part of our employee welfare initiative, we partnered with Apollo Hospital and other local hospitals for vaccination drives for protection against COVID-19 for our employees and employees' families. I'm pleased to share that over 87% of employees have received the first dose and around 22% of the employee base is fully inoculated. In addition, we have extended the vaccination drives for families and secondary manpower in the region.

I would now like to cover some developments on the management team side:

Mr. Shrikant Mate – SHK Executive Vice president and Group CFO will be superannuating on September 30th, 2021. Shrikant has been with us for over a decade and held various leadership roles at SHK. He was also actively involved in driving our company's IPO and acquisitions and has been an integral contributor to the growth of S.H. Kelkar. On behalf of the Keva family, I would like to thank Shrikant for his contributions and wish him best in his retirement. We have recently appointed Mr. Rohit Saraogi as Executive Vice President and Group CFO designate of the company. Rohit is a Chartered Accountant and brings with him around two decades of finance domain and leadership experience. In the past he has been associated with large and reputed companies in the FMCG space. We would like to welcome him on board. In the next couple of months Rohit will work closely with Shrikant to ensure a smooth transition and will formally take charges Group CFO with effect from 15th November 2021.

To conclude, as we look ahead from the demand standpoint, we are currently witnessing steady wins and inquiries across customers in domestic and international markets. While there are concerns with regard to the macro-environment given the uncertainties relating to the pandemic, internally we have several promising growth initiatives in place. We are confident that our strategic growth levers along with our robust business model should enable us to report healthy performance going forward.

On that note I would 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 Payal Lad from Progressive Share Brokers.

Payal Lad: I have just a couple of questions that needs clarification. Firstly, I would want to know how do you see the traction in the Ayush space of late and going forward? And secondly in terms of what kind of opportunities or market size do you foresee in the savory market like some kind of CAPEX which you are looking at? And one last question in terms of the company having witnessed Amazon and Flipkart orders in the natural flavour segment, so these were more on which side, were these on the confectionary or the beverages side and how big are these orders, if you can quantify the same?

Kedar Vaze: I think the overall macro-economic situation is quite okay. Particularly on the flavours, you have asked on the savoury, we continue to invest in our development on the savory market. It's a very large market as you can imagine in India. We are focused on very small part of that, which are niches. We have internal CAPEX to continue to grow this market without too much new capacity or new investment. On the Ayush front as well, we are seeing continuous robust growth, although it's a small segment for us - the Ayurvedic and active business. We'll see good traction in the coming years as this has become a very big area of focus for the consumer trend. Both of these areas of savoury flavor as well as natural and natural extracts are areas where we are continuing to do our developments and we continue to grow but they will remain small segments for the few years to come.

Payal Lad: You mentioned about internal CAPEX in the savoury segment, so like if you could quantify what range would be?

Kedar Vaze: The CAPEX for these activities would be in the range of Rs. 2-3 crore , so they are not significant. Capex will be in terms of bigger sizing of equipment and would not be in the magnitude more than Rs. 2-3 crore.

- Payal Lad:** And with regard to the Amazon orders like there is a mention in the AR that you are witnessing monthly orders in this case in the flavour segment. So, how good is that number?
- Kedar Vaze:** Again, flavours is seeing robust growth in the organic business. We have had another year this year when we lost the most part of the summer season in India because of the pandemic. A lot of the ice cream and beverage flavour sales were deferred particularly in the month of May and June. All of these sales are very seasonal with the very big peaks in the summer season. We don't anticipate that, the rest of the year will catch up the lost sales. However, our traction for the remaining three quarters remains intact, our export growth continues to be robust. So, I don't foresee any big change in the flavour market. We continue to grow, and we should do 15% + growth year-on-year.
- Payal Lad:** With regards to the provision reversal which has happened in this quarter pertaining to Rs. 64.5 crore in terms of unamortized part, what exactly is that issue? Was it disallowed earlier and then how did it diffuse?
- Kedar Vaze:** The tax provision was taken in the past and tax ruling has now come in the favour of our company, so we have now reversed that provision.
- Moderator:** The next question is from the line of Bharat Sheth from Quest Investment.
- Bharat Sheth:** On our flavour business, you have given a YOY growth of 15%. So, which is a little ahead I mean what earlier we were looking was 10% to 12%. That is great. How do we see the profitability, once the growth really starts kicking in, so what is the operating leverage that we have in the flavour business?
- Kedar Vaze:** I think in flavour business, we always maintained a 15% + growth. There is a good profitability margin around the 46%-47% and flowing down to a profitability of 10%+ in PAT. It's a steady state business, continuing to grow. There is no surprise on the flavour side at all. The environment remains normal, demand is robust then we would continue to grow that business very aggressively. Having said that on the overall fragrance business as well we have good number of wins, good number of FMCG companies have approved our products. So, the overall growth in the long-term & near term remains very much intact. For the overall margin this quarter, we have clocked around 16% EBITDA and in a normal quarter we should be upwards of 18% to 19% EBITDA level.
- Bharat Sheth:** Q1 number includes CFF number, so this top-line growth is not really reflected. If one has to look at like-to-like growth, how does one look at it?
- Kedar Vaze:** So, we have 44% growth year-on-year versus last year which is the underlying like-for-like business. I think we have probably Rs. 25-30 crore business momentum lost in the first quarter owing to the pandemic. But we foresee that this will restore sometime in this quarter or next quarter.
- Bharat Sheth:** Overall growth of around 15% for fragrance business on normalized basis, is that possible or plus little higher growth?
- Kedar Vaze:** Yes. Like-for-like 15%, we are still confident to achieve.
- Bharat Sheth:** Coming to this write-off, in last 4 years on R&D expenses we have capitalized almost Rs. 200 crore and in last 2 years we have written off Rs. 36 crore and now in this quarter around Rs. 12 crore. How much of one-off will really continue despite a normal depreciating intangible that we provide?

- Kedar Vaze:** This Rs. 36 crore is not related to R&D at all. It was in respect to accounting impairment of the plant in the Netherlands. It was a part of plant shifting to Mahad.
- Bharat Sheth:** I am talking apart from that Rs. 36 crore, there is a difference. In FY '20 and FY '21 annual report the R&D expenses written off apart from depreciation is Rs. 36 crore.
- Kedar Vaze:** Yes, I understand. What I'm trying to say is that these R&D expenses written off are, basically those expenses, which have been incurred for running a project for 1 year or more with the client and then expensed out. In normal situation about 20% of the projects we will win, 80% of the projects, we are not winning. This is just a normal part of the business. The reason for doing the amortization is because the large projects are running over 2-3 years and this policy was in place. Unfortunately, in the last 2 years there was this pandemic and then uncertainty of the wins. While we have won the business, the business launches have not happened in the same manner that was the normal case before. Plus, we have now our IP and formulations that are being used in Italy so that is why we have changed the policy to expense out the entire R&D. This Rs. 12.9 crore is not actually a write-off or a new cost. It is just an expense preponement.
- Bharat Sheth:** Do we expect to continue same amount?
- Kedar Vaze:** So, we have changed the policy. We will expense the R&D expense instead of capitalizing it. Going forward you will not see any capitalization and write-off; it will directly be expensed in the quarter.
- Bharat Sheth:** That becomes then the normal EBITDA will be much lower than what we are guiding or the EBITDA margin that we are guiding.
- Kedar Vaze:** There is no impact on the EBITDA because it was already a steady state. We had write-offs and we had expense deferment in almost the same quantum. There was no real change in the quarter-on-quarter expense. By changing to the new policy, it will just be straight expense. There will be no change or effect on the overall EBITDA percentage.
- Bharat Sheth:** My question is now this Rs. 13 crore what we are written-off in Q1, so same amount will continue for remaining three quarters and in future also?
- Kedar Vaze:** We are not capitalizing anymore R&D. We are expensing it, so every quarter we will expense the quantum that is spent in that quarter. That will have no effect on the EBITDA because in reality we have some write-off from the previous CWIP and we have some expenses getting in CWIP. So, that is a steady state. There will be no difference on account of the changing policy.
- Bharat Sheth:** Can you give more colour on the new wins and how do we expect that to ramp up and second on the Isobionics Santalol opportunity and third this new win whether any multinational FMCG is there or not?
- Kedar Vaze:** New win as of now we don't have any MNC I would say as of now. We are negotiating as always and hopefully we will crack something this year. The point on the new wins, I think there is lot of new wins in the last year and even early part of this year which are not yet launched. We have a very robust pipeline with all the big companies within India as well as overseas. And we see this as a phase where because of the pandemic or various reasons their launches were delayed but the products are approved. Everything is in place. At the time when things become more normal for the FMCG business, we see a big growth spurt coming in.

- Bharat Sheth:** Q-o-Q also, we have seen a good amount in the staff cost. So, is this a normalized run rate or we have hired more people or how really one should look at it?
- Kedar Vaze:** The cost increase this quarter has been largely on the Italian front with the conversion rate and the new company Nova coming into the fold. The baseline cost in India for the existing business has not changed much. We will see the effect of salary increases which are a normal yearly increment in Q2 quarter. In the first quarter there was no increase, second quarter onwards, there will be normal cycle, there will be increase in employee cost but it won't be very significant.
- Bharat Sheth:** How do we look at gross margin and raw material availability as well as the pricing scenario?
- Kedar Vaze:** Raw material availability is still a difficult scenario. We have maintained good inventory and good planning. We have also put out the price increases to the clients and we expect that we will be able to manage our gross margins in the 42%-43% range. There may be one quarter with some effect of the Mahad plant closure but eventually on a longer term we will be in the 43% gross margin range.
- Moderator:** The next question is from the line of Deepak Poddar from Sapphire Capital Partners.
- Deepak Poddar:** I just wanted to understand, you mentioned about the raw material availability in a difficult scenario. How do you see that impacting your EBITDA margin going forward?
- Kedar Vaze:** I think we have had some effect in the flavours in the last quarter and in the fragrances to some extent in this quarter on our margin. But we don't foresee any big effect on the margins or EBITDA and we will be able to pass on some of these costs to the clients and maintain our margins and EBITDA percentage.
- Deepak Poddar:** This year our target has been in the range of 19% to 20% EBITDA margin, so that remains intact?
- Kedar Vaze:** That's correct.
- Moderator:** The next question is from the line of Rohit Ohri from Progressive Shares.
- Rohit Ohri:** This question is from the annual report; the annual report is saying that you're looking at an ambitious target of around USD 1 billion which is from the global business by the end of decade. This translates into around 18% to 22% growth rate. So, how do you intend to achieve this, are you looking at some more acquisitions or are you looking at some joint ventures that might come in future?
- Kedar Vaze:** The overall CAGR growth we will be able to achieve with organic growth of around 12% to 15% and the balance with an inorganic acquisition strategy.
- Rohit Ohri:** In your opening remarks you mentioned that there are some strategic growth initiatives that you are looking at. If you can just take us through that.
- Kedar Vaze:** We have certain sort of active molecule that we call health and active, Ayurvedic extract and things like this which we've alluded last time. These are all initiatives for the longer term. This will drive growth on a very big quantum although it is in the nascent stage as of now.

- Rohit Ohri:** My last question is that the promoter group has created a pledge and can you just take us through that, the reason for that if you would like to share?
- Kedar Vaze:** We have created the pledge just as like OD line for any emergencies. There are basically family members within the promoters who are in various stages of their lives. There are expected expenses towards buying house, towards education and other expenses. We are keeping this as a pledge to keep a line available for any kind of family expenses.
- Rohit Ohri:** By when do you think you can reverse this, any timeline that you have in mind maybe a year, a year and a half, two years?
- Kedar Vaze:** We don't have any timeline for this reversal. Normally we have every year sufficient dividend payouts and that takes care of all the family expenses. This year given the second wave of pandemic and the uncertainty, it is difficult to estimate what would have been or what would be the dividend payout and it was just an action to make sure that we have some liquidity in the family. I am personally also travelling; I am in the European continent at the moment and given the pandemic and uncertainty, this was the fastest way to draw the line and we have taken it. There are no immediate plans of reversing it anytime soon but at the same time, the amount which is drawn against this pledge is less than Rs. 5 crore. So, it's not a big amount. Only thing is we would like to keep the pledge as an emergency source of funding.
- Moderator:** The next question is from the line of Nikhil Upadhyay from Securities Investment Management Private Limited.
- Nikhil Upadhyay:** Just to put it correctly, on the provision side, so if we look at our balance sheet on the intangible asset under development, there was a closing balance of Rs. 13 crore. So, this write-off of Rs. 12.9 crore which we have taken has completely removed the intangible assets from the balance sheet. Would that be a right understanding?
- Kedar Vaze:** Yes, that would be right.
- Nikhil Upadhyay:** Margin impact, you said, is not there because we were taking a write-off of Rs. 11 crore in the P&L every year which was against these R&D projects which now get subsumed as the R&D expenses.
- Kedar Vaze:** Yes, that is right. So it was almost say Rs. 12 crore of capitalization and Rs. 12 crore of expense from CWIP was the trend for the last year and half for the pandemic. So we decided, we just go to a simple expenses model. Especially since the utilization of this CWIP in Europe and Italian operations also is there. It becomes difficult to quantify the revenue versus the capitalization, so we decided to abandon this capitalization and go to a 100% expense model.
- Nikhil Upadhyay:** Just one clarity, so these R&D projects, you mentioned, are projects we run with the client and because either the win rate is not happening or the product does not get launched, we have to take a write-off. So is the timeline of these projects generally less than one year-six months and are these projects only specific to the clients because my understanding was that we developed products which can be sold across clients. So if you could help me understand this part.
- Kedar Vaze:** So, the CWIP policy was specific to the clients and specific for new molecule IP. Specific client project actually, you know, last year because of the pandemic, there were delays in launches so we had to write off quite a lot of projects. Again, this year, given the pandemic situation, we decided that it's better to move to a simple

policy of expensing out. The CWIP of the molecules is now started to be used in Italy and then the question we anticipate from the various tax authorities is how much is used in India and how much is used outside India and so on and so forth for the amortization. So we will just expense it and make it simple from the policy point of view.

Nikhil Upadhyay: Second question is: you mentioned in the start of the call that we have started taking price increases and I think I would congratulate you because even with the way the cost increases have been, sequentially gross margins have been stable. The price increases we are taking, are they only covering RM increases or other increases on the freight side and other line items. So, does it cover most of the cost increment or only the RM increase?

Kedar Vaze: So, it's not only the RM expense but we are trying to offset as much as overall cost increases like you mentioned such as freight, other expenses due to COVID and internally for want of distancing, we have some operational inefficiencies on the way we are operating because of the COVID situation. So, all of that we are taking into account when we pass on the cost. I don't think that the cost will cover everything universally and on the situation of the client side, on account of uncertainty and lower growth environment or perception. So we are taking the middle path and we are trying to maximise what price increase we can do.

Nikhil Upadhyay: Last question on the CFF, when we had acquired what I understand that CFF had a good and very strong Fine Fragrance customer base. Are we able to leverage out with the sales marketing Middle East or Southeast Asia or India? Are we getting any success or if you can just help me on the business development? Secondly, there was this molecule which we had in-licensed last quarter of which we were the sole seller. Any updates on those projects how are they improving or going about?

Kedar Vaze: In South-East Asia, we are working on the developments that are good connections with the clients but at the moment, South-East Asia is also in the epicentre of the pandemic, the situation is getting more and more difficult, particularly, in Indonesia and some other countries. We have seen that it's not anywhere near normal at the moment. There, the projects in terms of approved products and so on and so forth are not getting launched. We will wait till things normalize. In the regions we are operating like South-East Asia, at the moment, is the region which is most affected by the pandemic. Whereas the Middle East, India and European regions have now come out or the outlook is improving. In South-East Asia, the outlook is still in the negative phase of the pandemic and we continue to work. We have our centre and there is good interaction with the clients but the product launches particularly are not going to happen at least in the coming quarter.

Moderator: The next question is from the line of Deep Paul, an Individual Investor.

Deep Paul: As we know that the last quarter was challenging on the collection front. The receivable days have deteriorated but even if we look from the last decade, have inched up from 70-80 days till now and are hovering around 100. So, if you can give a colour or clarity on how we can see the receivable days in the near future because for most of the other FMCG suppliers, it's around 60 days. Is it too aspirational to think that we can move to that direction?

Kedar Vaze: If you look at the domestic versus export business, it is actually very close to the 60 days mark in domestic business. For exports, we have many clients in the 120-day payment cycles. Collections of 100 days are actually a blended average between domestic and export. When we look at it and you see the kind of average going up,

it's not that the collection intensity has been lesser than what it was in the past. It is actually more a reflection that more amount of our sales is in exports.

- Deep Paul:** Can't we reduce the receivable days for the exports or it's the industry trend?
- Kedar Vaze:** Actually, particularly the Middle East and other countries where there is a competition from the European suppliers; they are quite okay to give long lead, long payment terms because there is almost zero interest rates in their countries. With that competition, we need to have higher payment cycle than what is in the domestic market.
- Deep Paul:** My next question is regarding the inventory turnover. Our inventory is quite large so around 45% of sales or currently you are holding Rs. 500 Cr. So, are there any opportunity or are we having any strategy in plan to reduce it? We know that we have prudent inventory management, can we rope in top consulting firms and leverage the latest trends which are happening over last decade like data science or artificial intelligence to bring in more efficiency into the inventory management? Are there any thoughts around this or is there any plan currently in pipeline?
- Kedar Vaze:** We have a team of analytical and like you say, on artificial intelligence, the team is working on this problem at the moment. And the combination of growing the sales with the same level of inventory and reducing the inventory, both these measures are being taken. It's clearly an area of improvement that we will plan out. Given our business model with the large number of SKUs and small customers and variation in the raw material availability and pricing, I don't foresee a big change but incrementally 2%-3%-4%, we will bring down every year.
- Deep Paul:** My last question is regarding the CFF acquisition. It has been done in Italy where it's an aging population and an inherent growth is around 1% to 2%. Then how come CFF is growing which you have alluded around 10%. Is it because of some great products or from new launches and how sustainable is the growth rate?
- Kedar Vaze:** When you look at the economy growth versus consumer behavior, while the overall economic growth seems to be in smaller digit 1%-2%; the consumer spending per capita in Fragrance and FMCG is quite high in these markets compared to market like India. And normally, when you look at the premium product or niche products, there are many products which are big brands and then there are many smaller brands. In a low growth and in a more difficult economic growth situation, actually the smaller brands are growing faster than the big global brands. We are seeing that and that's why, the growth is higher in this company.
- Deep Paul:** Did we get any opportunity to cross sell the CFF product portfolio into the Indian market to different clients which has helped us, has that happened?
- Kedar Vaze:** No, it is happening. I think in the current scenario, it is difficult to interact. There is not much travel happening so there isn't much integration. We are letting the teams work on their own market and clients. Many of the labs both in Italy earlier and in India, we had to work with 25% or 50% people in the labs. We have not really started this cross-selling opportunities at this moment but we have obviously ability to look at the product range and start the cross-selling once things are more normal.
- Moderator:** The next question is from the line of Rohan Gupta from Edelweiss Securities Limited.

- Rohan Gupta:** One is on your clarification that you mentioned on EBITDA margins despite muted margins in the current quarter on a company level? We posted almost a 12% and 18% to 19% margins are typically for full year. So, just wanted to understand if you are expecting the margin expansion in future quarters for full year margin of 18% to 19%, which will also compensate for the loss of the current quarter?
- Kedar Vaze:** We expect that the future quarters should compensate to the extent of this quarter. Without the one-off adjustment, we are at 16% EBITDA margin, and on a full-year basis, we will definitely be closer to 19%-20%.
- Rohan Gupta:** **So** even with this 16% margin at present, we are confident about 19% to 20% margin?
- Kedar Vaze:** That's right. The growth levers are in place. We hope that the second half of the year will be a normal year in India particularly and that should see us doing strong growth in this quarter.
- Rohan Gupta:** But we are still living in a pandemic environment as you rightly mentioned that the South-Eastern market, right now, is witnessing more effect of the pandemic and that is an epicentre now and the second, the raw material prices continue to remain volatile. So, uncertainty is still not over but despite the uncertainty, are you confident that second half of the year will see a significant improvement in revenue, not only just in revenue but also in margins. That's what I just wanted to understand.
- Kedar Vaze:** What gives us a good confidence is also what has happened last year. We had the similar situation or even much worse situation in the first quarter and then the markets and business has rebounded in the rest of the year. I anticipate a very similar trend this year.
- Rohan Gupta:** Second question is on CFF and Nova performance. So, a couple of doubts here. Your CFF and Nova performance still talked about some kind of contract manufacturing revenue of roughly Rs. 23 crore for the current quarter. While the EBITDA performance or the gross profits from contract manufacturing is miniscule only close to the Rs. 2.6 crore. If you can clarify more on what this contract manufacturing business is and to whom are we selling this and how the growth opportunities are there and what kind of margins one will be looking in this business?
- Kedar Vaze:** The contract manufacturing is basically to large global FMCG companies. We provide Fragrance by manufacturing on contract basis. This is largely a capacity filling exercise and it has a low gross margin of about 10% but it is a large volume and it kind of takes care of the operational costs.
- Rohan Gupta:** It's only to fill the capacities as long as you are having idle capacities, but otherwise the moment that your own sales start going up the contract manufacturing revenues will come down, right?
- Kedar Vaze:** That's right. If you look at the historical context, the contract manufacturing was something like €14 million and our own business in CFF was something €5 million. Now we have reached excess of €16 million for our own business and contract manufacturing still remains around the €15 million. It's expected that this portfolio we will start to utilize more and more for our own customers and reduce the contract manufacturing over the next 4-5 years.

Rohan Gupta: How do you see that the post-pandemic era will change the business profile of Keval? In terms of global companies, they are looking for the China-plus-one model, secondly, in FMCG, the business model has changed a lot. People are looking more at contract manufacturing and outsourcing where probably, we fit into that business and also the acquisition-led opportunities for our company. How do you see that the post-pandemic era will help SH Kelkar or the business profile of the company will change? Do you see that over the next 2 to 3 years, a significant amount of business or growth opportunities?

Kedar Vaze: The pandemic era, as you call it, post pandemic, there are clearly consumer behaviour changes. There are new types of brands, the e-commerce brands and some of the niche brands. They are at either very bulk sale volume packs with value-for-money proposition or a pamper yourself proposition with very good fragrances and very high premium product. This trend is coming in globally, a thick part of it is also in India where people are willing to spend that extra money on e-commerce or luxury products. This is the trend. The pandemic has only, I would say, hastened the trend so there is nothing which is completely new. We were tracking these trends and behaviour and in consumer expectations and the pandemic has only made it faster which is beneficial for us in terms of the overall growth. We are more and more focused on the regional and local brands and specifically looking at niche opportunities. We benefit from this in the long-term growth. In the short term, actually, even prior to the pandemic at the time of the GST, demonetization, we have already seen some of the smaller clients de-grow. So, there is no additional effect on that with the pandemic but yes, the smaller clients which have their products being sold through the normal bazars in the local trade, they have seen less footfall, less people and less normal business. Their business has been lower but that is a clean effect which is already factored in our base for last year or for this year. So, I think we will continue to grow and in the pandemic, if anything has accelerated, it is the growth towards our clients, our potential clients. It is especially very important in terms of the European company that we have taken in Italy. We see that huge amount of traction on the regional brands and Italian local brands and niche high-end products which is helping us continue to grow even during the pandemic.

Rohan Gupta: Over a medium term, do you see that the growth for the company will be more driven by the acquisition? You already have a very healthy balance sheet right now. So, there is a potential to leverage your balance sheet and you are already ready to respond as to when the margin would be 19%-20% or the cash flows will improve?

Kedar Vaze: But on acquisition, there is a clear strategy to acquire and put strategic bolt-on companies which can help the group to grow faster. Through our acquisition strategy, we are looking to add geography or customer base of growing customers which we expect that in the future will continue to grow at a double-digit CAGR.

Rohan Gupta: Only way to look at acquisition will be or only reason to look at acquisition will be mainly to get the customers, right?

Kedar Vaze: Customer geography, if there is some technology specific thing, we can look at it. Primarily it is strategic objective. It will not be too much tactical unless it fits in the overall strategy, we will not do any acquisitions.

Moderator: The next question is from the line of Dixit Mittal from LIC Mutual Fund.

Dixit Mittal: My question is on disruption in Mahad. So, you mentioned that the plant will remain closed for the most part of this quarter. Will that have any impact on our maybe full

year or this quarter numbers or do you have enough inventories to take care of that?

Kedar Vaze: There will obviously be some effect on the supply because of the closure of the plant. We have enough inventories to manage the current contracts. We may be unable to take some new sales orders in this period for 1 or 2 months. But we will try to compensate this in the remaining six or remaining two quarters of the year, using also additional capacity from China. There will be effect of either some loss of revenue or some loss in gross margin since we will have to buy at a higher cost from our Chinese plant and then sell to the old contracts. There may be some cost in term of gross margin erosion or revenue erosion. That depends on how the market activates. As of now, we don't foresee a very large impact in a full year basis. In this quarter, obviously, there will be impact but on a full-year basis we don't see any major impact as we can recover some of the lost volume in the next quarter.

Moderator: The next question is from the line of Nikhil Upadhyay from Securities Investment Management Private Limited.

Nikhil Upadhyay: You mentioned in the earlier statement the amount of loss or sale which we had to bear because of the lockdown in 1Q. If you can just help me with the number?

Kedar Vaze: I think Rs.40 odd crore is ballpark number of revenue loss due to lockdown.

Moderator: The next question is from the line of Vedansh Agarwal from Premium Brokers Limited.

Vedansh Agarwal: If you can put a number to the revenue impact because of Mahad unit?

Kedar Vaze: The revenue impact may not be more than Rs. 4-5 crore. What we really need to look at is the gross margin impact since we will have to import from China and that will be many additional costs but the overall revenue impact will not be more than Rs. 4-5 crore for this quarter in terms of the Mahad stoppage. Our annual business ballpark is approx Rs.100 crore, so Rs. 25 crore is the expected revenue from this operation in this quarter. I think Rs. 4-5 crore will be the loss. The balance will get compensated to the stock in our other locations. We think if there are no other surprises in Mahad subsequently, we will be quite okay.

Vedansh Agarwal: So, is it impacting our exports?

Kedar Vaze: In this quarter there will be some effect I think but not significant. In the overall scheme, we have covered in our BCP which stocks locations elsewhere and finish good stocks in various parts of the world. If we are up and running in say second week of September and we start the production, there may not be too much loss in the overall view. We will be down to almost nil stock in the buffer warehouses and we will need to build that up with our China additional capacity.

Moderator: The next question is from the line of Naushad Choudary from Systematix Group.

Naushad Choudary: Just a clarification on some balance sheet part. If I look at our balance sheet, we work on around 60 to 70 days of raw material inventory plus around 20 to 25 days of the finished goods inventory which keeps our working capital cycle a little elevated. I was just wondering if there is a scope for improvement in these two parts especially on the raw material inventory side. And has there been any change in last 3-4 years in terms of availability of these raw materials especially in domestic market? Can you touch upon these two points?

- Kedar Vaze:** If you see the availability issue and you go back a little bit in the history, we have brought down the inventory levels. We have had a couple of quarters where we got hit with the major Force majeure in the past. I don't see that there is a very big scope of reducing the overall inventory from 60 days downwards on the raw material side. And our objective is to continue to increase the sales on the same inventory. While the inventory absolute number it is what remains, we will increase our turnover related to the same absolute number. Since we can then replenish faster model but our holding of current inventory, I think we will manage or we will need to maintain somewhat this level of magnitude of inventory. Then we will continue to increase our sales. We have already alluded earlier that 3%-4% premiumization is something which we will do.
- Naushad Choudary:** The primary reason for this elevated raw material inventory is because of the unavailability and seasonality in some of the key raw material. Is that the reason or is there something else that business is required to have this?
- Kedar Vaze:** There is a seasonality one part. The other part is in our business model, we are trying to manage the cost and selling price. There is a gap of between 3 to 4 months of any increase in raw material side or any specific increase, and then we like to pass it on to our customers with sufficient time. We don't end up with unexposed inventory shop for us. We have suffered in the past.
- Naushad Choudary:** We try to balance the gap between the contract price revision versus the inventory purchased?
- Kedar Vaze:** If I had to sell the next 6 months of sales basically with inventory on hand and few contracts supplies in hand so that there is no sudden change in the margins or sudden change in the expectations from the client side, we need sufficient time to negotiate any price increases with the clients.
- Naushad Choudary:** And in terms of our receivables there is a slight switch in last 2-3 years. There's a slight stretch on receivable side also. So, is there any differences in terms of credit given to the clients in domestic market versus export market because in this same period the export revenue has gone up? I was just wondering is that the reason which is stretching our receivables?
- Kedar Vaze:** The export market is 120 days of average collection and in domestic market its around 60 days Anything between 60 and 120 days is normal.
- Naushad Choudary:** For 120 days, do we enjoy better margin versus domestic and if you can quantify what percentage of that is by giving this much of credit.
- Kedar Vaze:** It's not to enjoy the better margin or worst margin but the credit is in US dollar terms normally we have hedging, get some equivalent amount of hedging cost benefit in a normal cycle.
- Moderator:** Thank you very much. Ladies and gentlemen, I now hand the conference over to the management for closing comments.
- Kedar Vaze:** Thank you. I hope we have been able to answer your questions satisfactorily. Should you need any further clarifications or would like to know more about the company, please feel free to contact our team for CDR India. Thank you once again for taking the time to join us on this call.



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

-End-

This is a transcription and may contain transcription errors. The transcript has been edited for clarity. The Company takes no responsibility of such errors, although an effort has been made to ensure high level of accuracy