



November 21, 2020

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 21 Earnings conference call for investors and analysts organized by the Company on Thursday, November 12, 2020 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

End: 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 & Co Ltd

Q2 FY21 Earnings Conference Call

November 12, 2020

Moderator: Ladies and gentlemen, good day and welcome to the S.H. Kelkar and Company Limited's Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I 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 afternoon everyone and thank you for joining us on S.H. Kelkar and Company Limited's Q2 & H1 FY21 Earnings Conference Call. We have with us Mr. Kedar Vaze – Whole-time Director and Group CEO; Mr. B. Ramkrishnan – (Head) Strategy and Mr. Shrikant Mate – VP and Group CFO of the Company.

We will begin the call with opening remarks from the management, following which we will have the forum open for a question and answer session. Before we start, I would like to point out that some statements made in today's call may be forward looking in nature and a disclaimer to this effect has been included in the earnings presentation shared with you earlier.

I would now like to invite Kedar to make his opening remarks.

Kedar Vaze: Thank you Anoop. Good afternoon and thank you for joining us on our Q2 & H1 FY21 earnings call to discuss the operating and financial performance for the quarter. I trust you and your families are safe and maintaining all precautions against the spread of COVID-19.

To begin with, I am pleased to share that we have delivered a robust performance during the quarter on the back of healthy uptick in demand across both the domestic and the international markets. Increased traction in engagement with large and mid-sized FMCG customers led to new business wins across various categories, further laying a solid foundation for us to deliver multi-year growth. In addition, our wholly owned subsidiary CFF also delivered an encouraging performance. I would like to highlight here that the quarter's performance includes consolidation of CFF numbers with effect from 1st August 2020. So on a consolidated basis, our revenues from operations stood at Rs. 351.9 crore and on a like-to-like basis, excluding CFF contribution, our revenues in Q2 was higher by 14% year-on-year.

On the profitability front; higher operating leverage and better product mix enabled us to report strong performance during the quarter. This along with a stable raw material environment and cost optimization measures executed over the last few



quarters further enhanced margin performance during the quarter. Our gross margins during the quarter stood at 44%, while EBITDA margins improved to 21%. CFF also delivered steady performance in its core fragrance division driven by increased demand and volume off-take in the Italian and other European markets. Gross margins in the core fragrance segment remain strong at 54%.

Reported PAT included an exceptional income of Rs. 12.5 crore which was recorded on account of re-measurement of our stake in CFF after it was recognized as a wholly owned subsidiary. Excluding this amount, the PAT stood strong at Rs 41.3 crore, higher by 176% year-on-year.

On the segmental basis, the Fragrance division witnessed healthy pickup in demand and saw improved business wins as the country moved to the un-lockdown phase. In the Flavours division, we launched new product offerings which saw strong acceptance in the domestic and international markets. This, in addition to improved recovery in the demand environment resulted in healthy sales during the quarter.

From a consolidated balance sheet perspective, as on 30th September 2020, the Company's net debt position stood at Rs.454 crore. This includes consolidation of the CFF debt and the payment of the second and final tranche of the CFF acquisition of about Rs. 141 crore. Excluding CFF debt and acquisition payment, our net debt was steady at Rs. 249 crore. Going forward, we have no major capex plans on hand and the focus remains on sweating current investment and generating healthy free cash flows. Accordingly, I'm also happy to share here that the Board of Directors has declared an interim dividend of Rs.1 per share. This is in line with our dividend distribution policy while maintaining a healthy balance sheet position.

As we look ahead, a combination of improving economic indicators and the festive season should help strengthen demand and consumption across the country. This will enable us to sustain our momentum, going forward. After witnessing one of the most challenging periods in the F&F industry over the past few years, we believe we are firmly back on track to deliver healthy and sustainable growth in the near to medium term. While there is reasonable optimism on the domestic front, the second wave of COVID-19 in Europe and elsewhere needs to be factored in. We are taking all measures to mitigate the risk and ensure the safety of our people. Furthermore, we are monitoring our operations and processes such that it poses minimal risks for the spread of this disease. However, it is difficult to estimate the impact of this development on the results of the rest of the year.

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

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Alpesh Thacker from Motilal Oswal Financial services.

Alpesh Thacker: My first question is on; we have talked about new customer wins across categories. Can you please throw some light on the customers, where we have won these deals and whether it is in Flavours or Fragrances and how you use this opportunity in terms of annual run-rate because it's a multi-year deal that we are talking about?

Kedar Vaze: The wins are in both - Fragrances as well as Flavours. These are across the board. Across all the customers, we have seen good traction of new development, particularly in the Health and Wellness section. So there have been new launches around health soaps, sanitizers, & specific health-benefit products. So we have got

a large number of wins. On an estimated first half, we have clocked roughly Rs. 35 crore of new win potential, which would help us continue the growth trajectory in the years to come.

Alpesh Thacker: In the Flavours division, we saw a very big jump in the margin. That was because of the product mix that you have talked about. Can you elaborate on that and what can be the sustainable margin in that business?

Kedar Vaze: In the Flavour business, we have a higher share of exports in this quarter that is boosting the overall margin profile. We had 2%-3% higher gross margin than the trend line which we expected. It will be around the same 50% gross margin level, what we expect on a sustainable basis.

Alpesh Thacker: Just one clarification from the earlier question. So you were talking about Rs. 35 crore run rate. So was that the quarterly run rate from the new wins?

Kedar Vaze: Rs. 35 crores are the new potential revenues from the new wins of this year. So next year, we should expect Rs. 35 crore odds of new revenues from these new developments.

Moderator: The next question is from the line of S. Bhaiyya, Individual Investor.

S. Bhaiyya: Just on a broad level, we have had a couple of challenging times in the past few years and we have steered to them pretty well but just in hindsight, is there anything you would have done differently or going forward would you change your approach in any way?

Kedar Vaze: We had this same question two quarters back. I think in hindsight, we could have taken lesser risk and been more conservative in our investment and growth strategy. As I mentioned at that time, we have now restructured the outlook by business unit and by region, which helped us to react to any specific changes in a much faster manner.

S. Bhaiyya: How do you see the raw material prices going in the next few quarters?

Kedar Vaze: I think the raw material prices, at the beginning of this year, after the pandemic has been at a very low level. We expect that the raw material prices will correct slightly in the coming quarters. There are a lot of factors, which are playing out and at this moment, it is difficult to assess how the market trend or the raw material situation will be. We have a fair visibility of our contracts and stock in hand for the next two quarters. For us, the raw material prices will remain more or less the same, maybe a couple of percentages higher cost towards the end of the fiscal year.

Moderator: The next question is from the line of Sabyasachi Mukerji from Centrum PMS.

Sabyasachi Mukerji: On your quarterly performance, you have clocked around Rs. 350 crore of revenue and the EBITDA margin of 20%. These kind of numbers have not been seen for the last 10-12 quarters, in a long time. What is the sustainability of such run-rate, both in terms of revenue and margin if you can throw some light?

Kedar Vaze: I think if you look at the revenue run rate except the last quarter, we have been looking at a 2% to 3% sequential quarter-on-quarter growth. So this quarter is on the same trend. Just keeping in mind the second wave of COVID internationally, but otherwise I would expect the demand to continue to grow at this pace, 10%-12% per annum and we will continue to grow sequentially 2 to 3% per quarter. On that line, our last couple of years have had lot of macro-events with GST and gross

margin. As I mentioned earlier on the call, we have to take corrective steps and have taken most of those and built our business back in-line with the current revenue and cost structure. So this is now the reset of the business post last couple of years and from hereon, we see this to be sustainable. We have already guided a 43% gross margin and a ballpark 20% EBITDA level and we will maintain that path, with a 10%-12% growth rate year-on-year.

Sabyasachi Mukerji: Is it something that some of the Q1 revenues got spilled over to Q2 and that's why we are seeing such a sharp YOY jump in Q2, is that a correct understanding?

Kedar Vaze: To some extent, yes, although I see a similar trend in the first half of this quarter so there is no sharp drop in the demand situations, while we believe that we will have similar quarters, going forward. There is no specific kind of one-off or catch-up demand in this quarter.

Sabyasachi Mukerji: My second question is based on the longer term, if I look at your numbers from FY16 or FY17 and I look at the gross assets, gross block, net block number and the sales number, your gross block or net block, it has almost doubled because I think you have done good amount of capex in FY19 and FY20 and now this inorganic acquisition but your sales have almost hovered from Rs. 900 to Rs. 1,000 to Rs. 1,100 crore range. What is your long-term outlook probably in next 3 or 5 years? You are currently at the US\$150 million kind of revenues and now the other global players are much bigger in size. Can we reach to a level of something of half a billion dollars in 5 years? What is your long-term outlook on the same?

Kedar Vaze: So our Chairman and my father, Mr. Ramesh Vaze has already put out direct steps few years ago to making the Company a \$1 billion Fragrance & Flavour Company. So we are taking all steps necessary to go in that direction. On the question of the results, we have continued to do the right investments and the right management steps but we have seen many factors partly outside our control which have affected us in the last 2-3 years. We wish to just continue to do the right things and we are confident that these results will be sustainable and we will be on this track, going forward.

Moderator: The next question is from the line of Deepak Poddar from Sapphire Capital.

Deepak Poddar: Now that you mentioned that we don't have any major capex planned and we are focusing on generating free cash flow and considering our improved performance, so how do you see the debt repayment over the next 1 to 2 years?

Kedar Vaze: We had already indicated earlier in the year that we intend to be around the same level at the end of March, so around Rs. 300-crore net debt position end of March 2021. Our expected debt levels in CFF working capital have been slightly higher. They have continued to grow double digit in the last 3-4 months despite the events around COVID. So there has been a bit of increase in their working capital debt level, so today we stand at Rs. 454 crore net debt as of end of September 2020. We will look to bring that down by around Rs. 125-130 crore by end of March 2021.

Deepak Poddar: About next year?

Kedar Vaze: We continue to have a month-on-month, quarter-on-quarter cash generating business. The trend line would continue to be in that. We have no major capex outlined for this year or for next year. We will continue to bring down the debt if there are no opportunities for investments.

Moderator: The next question is from the line of Naresh Vaswani from Sameeksha Capital.

Naresh Vaswani: EBITDA margin which has improved, how much of this was due to operating leverage and you have also mentioned about cost savings which you have done, so much was on that account and also we had operations shift from the Netherlands to India, so if you can quantify these three factors, that would be helpful. Secondly, on the 14% growth, which you have done how much of this was due to COVID related increased demand of your products and your 12% guidance, how do you plan to achieve that whether by adding new clients or by adding new wins?

Kedar Vaze: I will answer these questions in reverse order. So on the growth, I have already alluded that we have roughly Rs. 35 crores of new business potential in the first half of this year. That will add to our top-line next year. Plus, we have continued to grow with our current clients and we see double digit growth in many of our current clients, both domestically as well as internationally. In Fragrance, exports particularly Southeast Asia, we had lost some business on the supply disturbances in the first quarter. We hope to regain that business as well. If you look at the sustainability and about 14% year- on-year growth, I think there will be some impact probably 1% or 2% impact of the previous quarter coming into this quarter in terms of growth. Being mindful of that, we are still poised for a steady 12+% sustainable growth.

As regards to the cost, we had alluded two quarters back and before, that we are taking appropriate steps. The cost structure of moving the Netherlands operations to India has already resulted in roughly Rs. 12 to 13 crore of annualized cost savings in this year. You can see the effects of that following through. We have also restructured our business internally and made it more cost efficient so that all of those things you can see in the cost structure. We are now on a sustainable cost level, where we have no specific changes, neither new increases, neither any further reduction which are planned. From here on, we will closely monitor the growth and the resourcing that we need on a quarter-on-quarter basis.

Naresh Vaswani: So, we are confident of clocking 20% margins?

Kedar Vaze: At the gross margin level 43% and around 20% at the EBITDA level, we are confident to be sustainably around these levels. I would just put a small caution that some of the international business is directly affected by the COVID situation in the first quarter, even with the second wave, there might be one quarter up or down in the second half of the year, which depends on how the global demand pans out for ingredients.

Naresh Vaswani: Second question on the balance sheet, intangible assets have increased by Rs. 265 crores in the first half. So this entire acquisition has gone into that and are there no tangible assets in CFF, right now?

Shrikant Mate: Large part of the acquisition purchase price was fair valued and intangibles are largely arising out of that by way of formulations, customer relationships and goodwill. So you are right, large part of that is directly linked with completion of tranche II acquisition.

Naresh Vaswani: So any amount of tangible assets for CFF, right now?

Shrikant Mate: Fair value of tangible assets is roughly Rs. 37 crores.

Naresh Vaswani: And these intangible assets which we have created, so what will be the expected amortization per year?

- Shrikant Mate:** So we have well-defined policy for amortization of these intangible assets depending upon what type of assets these are. So, it typically ranges between 10 to 15 years, based on the useful economic life. Goodwill is not amortized. This is tested for impairment, every year as required by the IFRS or Ind-AS.
- Naresh Vaswani:** Whenever we look at acquisitions, we target 20% ROCE but right now CFF is around 7-8%. How do we plan to take it to 20%?
- Kedar Vaze:** I think the 20% ROCE is in INR. When we look at the European situation, we have very low debt rates, roughly hovering around the 2%. At 7%-8%, we are still seeing a very high value plus as things start to grow, there are synergies which are not considered in the current results. We can drive roughly around half a million of cost savings and additional half a million of synergy benefits as we start to operate the two companies and take benefit of the product development and supply chain on both sides.
- Naresh Vaswani:** What was the capacity utilization in Q2 across all assets?
- Kedar Vaze:** So capacity utilization was similar to last quarter of the previous fiscal, hovering around 50% for the fragrance and flavour businesses and 80% for Mahad and Vapi facilities. At this moment, our China facility is operating at a very low level 20% odd, given the demand slackness on some of the raw materials.
- Moderator:** The next question is from the line of Bharat Seth from Quest Investment.
- Bharat Seth:** If you can give little more colour on what kind of synergy we can have with CFF, going ahead? Secondly, we were working to win some international client and then converting local MNC also as a client. So in this journey, where are we now?
- Kedar Vaze:** Firstly, on CFF, as I alluded, we have roughly half a million Euro synergy which is low hanging, immediate synergy on buying and supply chain. We also see and estimate another half a million of synergy based on management cost and development cost sharing across the various businesses. This is the roadmap for the synergies of CFF integration into the Keva Group.
- Second question on MNC, we do have some inroads in global MNCs. We are continuing our efforts and we are very close to actual business. We have some products, which are approved at various stages. There were some delays on account of COVID situation, where the launches were put ahead. We are already ready with the products and designs and we should be getting some actual business very soon.
- Bharat Seth:** Will it be for India business or international exports also?
- Kedar Vaze:** Both India and export.
- Bharat Seth:** And how big is the opportunity?
- Kedar Vaze:** So initially it will be small, Rs. 1 or 2 crore annualized business. But this will start to grow subsequently.
- Bharat Seth:** Can you give some colour on this working capital scenario, because in this quarter our inventory has shot up because of CFF as well as trade payables have also gone up. What kind of a normal working capital cycle will it be, going ahead?

Kedar Vaze: I think the normal working capital cycle as we have mentioned earlier, we expect it to be a lower, around the same levels as March 2020. This year, we have taken steps to take additional inventory with longer payment cycles to vendors, even in the supply chain, there were logistic issues, so we have chosen to keep the inventories in our plants rather than on contracts, which will come in subsequently. I think on the operations side, in India, we have fairly normalized in terms of logistics and deliveries and we will then look to restore to our normal levels and reduce the inventory, which we hold at this point. So another roughly Rs. 25-30 crore of additional inventories are present in the balance sheet as of end of September 2020.

Bharat Seth: And receivables and payables side?

Kedar Vaze: Receivables remain in the similar range. Payables, we have made conscious effort and conscious discussion with the vendors that we will extend credit terms and we will keep the inventory in our books rather than taking the material on a deferred supply basis. So, all of these steps were taken in the first quarter when COVID-19 was disturbing the supply chain and with a much higher level of uncertainty. The effect of that is seen in this quarter, we have subsequently restored and restoring our supply chain to normal levels. So that will start to flow out and inventories will come down in the second half of the year.

Bharat Seth: This cost benefit or supply chain as well as synergy with CFF which is around €1 million, so in what time frame do we expect to achieve that?

Kedar Vaze: So the supply chain synergies, we expect to be around half a million and half a million is on the product development costs and management costs, which will get offset over all the businesses. The supply chain synergy, typically, we should start to see from January and we have a six monthly procurement cycle at CFF, in the next cycle, we can start to work jointly but within a year, we should be able to start to get the benefit of supply chain.

Moderator: The next question is from the line of Levin Shah from Value Quest.

Levin Shah: Firstly, if we look at the margins, our gross margins have been around 44% but because of the lower cost, we have been able to report around 21% EBITDA margin. So despite this kind of growth, we have seen flat employee and other costs. So going forward, do we see some of these costs coming back and consequently that impacting the EBITDA margins or most of these costs are like a steady state costs, going ahead?

Kedar Vaze: This quarter we have seen steady state costs in employee and fixed costs, there is no one-off or specific increase or decrease, and these are the base level costs at which we are operating the business. The margins in terms of gross margins have also expanded in this quarter on stock that we had on the demand situation. We anticipate that this gross margin at 44% may come down a tad as things are getting more normal and we will service all the business including some of the low margin business in exports, which we had sort of reduced priority for supply, given the demand on the domestic side. So the gross margin level of around 43% is what we anticipate, going forward. And if the demand situation continues, with Rs. 300 crores+ in a quarter, our cost structure would remain similar to this quarter.

Levin Shah: And on the flavours part of the business, there has been a substantial jump both in terms of revenue and margins so you alluded to this part in your previous questions as well but if you were to just ponder more upon this, what has led to this kind of growth in Flavours segment and over here again both the growth part and the

margins, how sustainable are they? And if this performance is sustainable, then what are the key drivers for this business?

Kedar Vaze: So I have also mentioned this earlier that the Flavours business, organic growth and new business have been continuing to grow at ~12%-15%. We had a certain loss of business of roughly Rs. 25 crore on account of Orange Oil, which has sort of overlaid on the underlying growth and made it look very flat. So, the original, Rs. 75 odd crore business is now growing and in this quarter, it is Rs. 30 crore. We'll see that Rs. 120 crore up from Rs. 75-80 crore 3-4 years ago and this Rs. 25 crore business, which we have lost is now completely out of the comparable year on year, so we see that this is the correct level sustainable from here on. Food industry has been growing and we are even witnessing further uptick on processed food and delivery of food which will help the Flavour industry growth rates and we are part of that growth, so we see this as a sustainable base level from where we will continue to grow.

On the exports, we need to be mindful of if there is any specific downturn on the result of COVID because some of our exports in the Middle East go towards travel and hospitality businesses. So that business may be affected in the event there is a very strong second wave and there is any disruption. As of now there are no indications, business continues to run normally. On the margins front also, this quarter has been very good as I alluded earlier that exports as part of the Flavour basket has been higher leading to better margins and 48%-50% gross margin is a sustainable level at which we will continue to grow.

Levin Shah: So basically, these margins of around 40% odd that we have reported, there is no one-off component in that and it is largely sustainable going forward?

Kedar Vaze: Yes I think it is sustainable; I would be surprised if the gross margins do not correct couple of percentages, I think we had very low prices of raw materials post COVID, which has helped us in this quarter. So it will normalize a bit but it is 1% or 2% difference on the gross margin front. So probably, you would want to take 37-38% as the sustainable level.

Moderator: The next question is from the line of Nav Bharadwaj from Anand Rathi.

Nav Bharadwaj: If you could help me understand the increase in the goodwill and consolidation and the other intangible assets, Rs. 201-crore number that we have on page no. 12?

Kedar Vaze: Just quickly, it is the goodwill arising out of the consolidation of CFF.

Nav Bharadwaj: And other intangible assets? What are we exactly capitalizing here?

Shrikant Mate: Like I mentioned earlier, the purchase price was fair valued through a professional valuer and the assets, which will have useful economic life like the Fragrance Formulations, customer relationships, non-compete fee etc, so they were evaluated and the breakup along with that and goodwill is the total amount of what you just see there. We can separately share with you breakup on a mail or on a separate call.

Nav Bharadwaj: Historically, we have been seeing that in the domestic market, our market share has been hovering around 12% with the aggressive growth that we find in the company right now, so in the domestic as well as in international market where do we see our market share in a year or maybe 2-3 years henceforth going forward?

- Kedar Vaze:** Our market share in the domestic has hovered around 12% in last 2-3 years. I believe this quarter we would have gained some market share and as we continue to grow at industry plus growth rates, our market share will continue to improve from 12%. I expect it to be growing at 0.2% per annum basis and increase from the 12% market share that we have today.
- Nav Bharadwaj:** Even in the international market, similar growth there?
- Kedar Vaze:** International market we are fairly small. Our market share is 3%-4% in the markets, where we have long positions and in the new markets, we are only a 1% player. So there is a long area of growth there and we will pick markets and specific categories and continue our growth strategy.
- Moderator:** The next question is from the line of Sachin Kasera from Swan Investment.
- Sachin Kasera:** In one of the previous questions you mentioned that the aspiration of the Chairman is to achieve a revenue of around \$1billion. So if you could tell us first of all is there any time frame that we are looking for? Do we have a roadmap for it and secondly do you think you can do it organically or you will need to do a lot of inorganic acquisitions to be able to achieve that?
- Kedar Vaze:** So, \$1 billion is something like 6 times of where we are today and we will look at doing both in organic and inorganic way. And this decade, we should be touching that milestone.
- Sachin Kasera:** When it comes to acquisitions, it was mentioned that because in Europe the debt interest is very low, 2% to 2.5% so we look at a much lower ROCE that is 20% for India but then are we looking at a higher leverage because cost of equity is normally 12%-13%.
- Kedar Vaze:** We have almost 4 or 5 times leverage in the European acquisition.
- Sachin Kasera:** My next question is regarding our ability to participate in large contracts with some of the multinationals across multiple geographies. If you could tell us how are we positioned there and do we see any significant wins possible in the next couple of years, where if we could make in-roads in some of the large multinationals, multi-geography large contracts?
- Kedar Vaze:** On the large multinational, multi-geography contracts, they are still a way ahead for us. I don't think any of those are going to materialize in the next 2 years but for global MNCs, there is a large part of their business, which is not multi-geography supply, it is single geography supply but large brands. Like for example Wheel brand in India is only present in India. It is a large brand in India but not outside India and similarly there are various brands in the different geographies in Asia particularly, Southeast Asia, India where we are operating and some parts of Africa where we are partnering with the global MNCs, with their specific requirement and understanding of their local brands and our next step of evolution is to address and take up business with the global MNCs' local brands in different region, different countries. Global to global, we already have number of large well entrenched suppliers. For example, in South Africa or South America, we don't have any operations in the America today so we are very much in Europe and India and Southeast Asia as our operating area. So we are looking more at the global MNCs with one region brands than global MNCs with multi-region brands, which is not our USP.

- Sachin Kasera:** To be able to keep increasing our market share going ahead, do we need to significantly ramp up our R&D capabilities both in terms of the talent as well as in terms of the investment that we need to do?
- Kedar Vaze:** We have been consistently investing, our investments in last 2-3 years on R&D have been higher than the actual business growth rates. We have brought down our investments in the R&D this year in line with the 4% R&D to sales ratio we project and accordingly, we will continue to invest in R&D on that trend line. As the sales grow, we will continue to invest 3% to 4% of that into our R&D projects for the next year.
- Moderator:** The next question is from the line of Anurag Patil from Roha Asset Managers.
- Anurag Patil:** Our overseas fragrance division it continues to degrow. Can you throw some light on that side?
- Kedar Vaze:** The overseas fragrance business has a combination of global ingredient demand and business in Southeast Asia, which had been negatively affected in this quarter, particularly in July. It has been subsequently restored and is running well. The global demand has been soft for some of the ingredients and that's a factor of the economic slowdown as a result of COVID, particularly in the Fine Fragrances and travel-related businesses. So this will come back after the restoration of the normal business.
- Anurag Patil:** So in Q3, can we say it will be flat or will there be growth or it will take some time for growth to come back there?
- Kedar Vaze:** Again we have had even in this quarter; August and September were quite in line with the expected trend. July is where we had a dip in the sales. So we don't anticipate very big drop. The growth will be there, the growth will continue quarter-on-quarter. We just have a smaller base as we had this decline in some of the demand. I don't have an exact way of knowing what happens in the Ingredient demand with the global scenario, with COVID, with travel and fine fragrances is still a question or still evolving but underlying major demand I would say 85% of our international business is not affected. The 15% which is affected is already being factored in this quarter so I don't see any further decline from here on this base. As things start restoring, we will see the uptick coming there as well.
- Moderator:** The next question is from the line of Rohit Nagraj from Sunidhi Securities.
- Rohit Nagraj:** The first question is on the R&D spend; you just explained earlier that will be reducing it from about Rs. 50 crores to may be closer to Rs. 40-45 crore. So has that effect come in our post-half numbers?
- Kedar Vaze:** Yes, so if you see in this quarter these numbers are at the sustainable level, we will maintain at these levels.
- Rohit Nagraj:** The second question is for the synergy benefits that we have talked about. So is it safe to assume maybe from CY2022 onwards, we will be able to realize this Euro 1 million of synergy benefits on a continuous basis?
- Kedar Vaze:** So the synergy benefits have already started to flow in. So it's not entirely that it will happen during one quarter. Certain raw material buying we have already started coordinating and we have been able to reduce the prices for CFF, you can see that in the bit of the margin expansion but overall this is the quantum when you see on an annualized year-on-year basis, the efficiency at CFF will improve by about Euro

0.5 million on the cost of their raw material, remaining Euro 0.5 million is synergy we need to drive by using the product development libraries and combining ours and theirs' know-how and markets.

Rohit Nagraj: One last clarification on the capacity utilization. Can you just again tell the numbers of China plant and our Flavours and Fragrances division separately?

Kedar Vaze: The China is at a very low capacity utilization at the moment at 20%, Mahad and Vapi continue to be above 80% and the Fragrance and Flavour plants are around 50%-55% utilization.

Moderator: The next question is from the line of Jignesh Makwana from Asian Market Securities.

Jignesh Makwana: Can we have the breakup of the organic business which is excluding the CFF for the Fragrance and Flavour for this particular quarter and what is the revenue mix of CFF in terms of Flavours and Fragrance?

Kedar Vaze: As far as the organic business is concerned, we have clocked Rs. 314 crores odd this quarter that is 14% up from same quarter last year. In relation to the CFF, it is only a Fragrance company, there is no Flavours business in CFF at the moment.

Moderator: The next question is from the line of C. Sri Hari from TCS Securities.

C. Sri Hari: My first question is you were saying that you don't need any significant capex over the medium term so based on the current capacity what is the kind of optimal sales that we can generate. Secondly, this contract manufacturing business, legacy business that you have narrated Rs. 50 crore odd per annum. So what is the tenure of that and hypothetically if you are able to use that capacity for your own product, what is the kind of revenue you can potentially generate?

Kedar Vaze: Without CFF, we have capacity as I mentioned at operating between 50%-55% and we can easily double or make our revenue 2.5 times with the installed capacity. There will be small incremental capex of Rs. 4-5 crore which we may need to do in the ramp up with automation and some additional larger equipment but by and large, the capacity for doubling the revenue from current base is already in place. On the Ingredients side, we have almost exhausted the capacity in terms of utilization, our China plant is where there is an adequate capacity for expansion but we will have to work through the strategy on which products we want to make and we will have a strategy of improving the margin and improving the profile of the higher value-added products so we will try to make and we will hive off some of the products to other manufacturers and get it made from generic Ingredient manufacturer which will be our way of increasing the revenue but without additional capex. So 2.5 times of revenue can be achieved of the current domestic or organic non-CFF business with the existing installed capacity already in place. On the CFF, also we have done a capex of almost €1 million last year so we have adequate capacity for the next 3-4 years. Exact revenue on that we can come back to you once we have a detailed plan for the next 3-4 years strategy.

C. Sri Hari: Contract manufacturing portion?

Kedar Vaze: Regarding Contract manufacturing, it is a multi-year contract with a large global FMCG-MNC. So it has been running almost since early 2000, so 15-16 years. It is renewed every 3-4 years but there is very limited risk. It's a relationship well over 2 decades and that capacity we are utilizing almost dedicatedly for the global MNC. So there is a €12 million or €15 million sales of that in the full annualized basis and

that is the kind of additional business we would do if that capacity were to be available for our core business. So another €15 million odd business we could do in the event that this core or contract manufacturing for any reason closes down. We will have to put additional efforts on the new client acquisition which we will take up.

- C. Sri Hari:** This current contract last till which year?
- Kedar Vaze:** Current contract lasts till end of December 2021.
- Moderator:** The next question is from the line of Jayesh Gandhi from Harshad Gandhi Securities.
- Jayesh Gandhi:** I have a bookkeeping question similar to what your earlier caller had asked. We have a goodwill increase of Rs. 160 crore and the intangible increase of probably Rs.100 crores. So it's like Rs. 260 crores of increase if we totally categorize it as intangibles. And the acquisition of CFF whose net worth is just Rs. 37 crores is 49% we have paid Rs. 141 crores, am I missing on something? Your numbers are not matching.
- Shrikant Mate:** Just to clarify earlier when 51% stake was acquired, on the balance sheet, it was continuing to be shown as investments only because it was a joint venture. When we acquired remaining 49%, it became full-fledged subsidiary and therefore the accounting has been done for entire purchase consideration i.e. for both tranches put together, which as I explained earlier, was driven by a process of fair valuation conducted by a professional valuer and based on that, the values have been arrived at.
- Jayesh Gandhi:** The fair value of total acquisition is Rs. 250 crores as of what we have put in the balance sheet.
- Shrikant Mate:** Yes.
- Moderator:** We take the last question from the line of which will Ujwal Shah from Quest investment.
- Ujwal Shah:** During the call, you did mention that some business was lost in Southeast Asia and you will regain the same in coming time. Can you throw some light what led to us losing that business and by when do we see that coming back to us?
- Kedar Vaze:** There is not any one specific business loss. We were in the last part of June when we had a shutdown or supply disturbance in April and early part of May, we were in the catch-up mode for the domestic demand and we have de-prioritized some of the low margin business or lower margin business and given priority to the domestic and higher margin business. Some of that business in July we did not do so you have seen that the export business particularly in Southeast Asia we have lost some business but this is something where we are in contact with the customers and we hope to regain that business as we go so it is not a permanent loss, it is a tactical or a couple of months loss of business due to supply constraint, the customers have been understanding of the situation.
- Ujwal Shah:** How large was this if you can quantify?
- Kedar Vaze:** About Rs. 5-7 crore worth business.

Ujwal Shah: Lastly, in terms of our international fragrance and domestic fragrance, are the gross margins quite similar or is it quite different low internationally? So if product mix changes back once international fragrance business is back on track, do we see lower margins because of the product mix?

Kedar Vaze: Yes, to some extent, the international business is around 40% gross margin level and the domestic is may be around the 45%-46%. So there will be small impact but we are still very confident to manage it in the gross margin level of around 43% for the total group.

Ujwal Shah: Your margin guidance stands for next year as well for FY22, can it be held on to our 20% kind of EBITDA margins and this 43% gross margins?

Kedar Vaze: Yes, our attempts and our confidence is that we will maintain this track-record.

Moderator: Ladies and gentlemen! That was the last question for today. I would now like to hand the conference back to the management for closing comments.

Kedar Vaze: Thank you. I hope we have been able to answer all your questions satisfactorily. Should you need any further 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. I wish you all a Happy Diwali. Thank you.

Moderator: Thank you. On behalf of S. H Kelkar and Company Limited we conclude today's conference. Thank you for joining. You may now disconnect your lines.

-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