June 06, 2023

To
The Manager
The Department of Corporate Services
BSE Limited
Floor 25, P. J. Towers,
Dalal Street, Mumbai – 400 001

Scrip Code: 539450

To
The Manager
The Listing Department
National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex,
Bandra (East), Mumbai – 400 051

Scrip Symbol: SHK

Dear Sir/ Madam,

Sub : Submission of transcript of conference call under Regulation 30 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are enclosing the transcript of Q4 & FY 23 Earnings conference call for investors and analysts organized by the Company on Thursday, June 01, 2023 at 12:00 Noon IST.

You are requested to take the same on record.

Thanking you,

Yours faithfully,

For **S H Kelkar and Company Limited**

ROHIT SARAOGI
Digitally signed by ROHIT SARAOGI
Date: 2023.06.06 16:19:03 +05'30'

Rohit Saraogi
Company Secretary & Compliance Officer

Encl: As above

S H Kelkar and Company Limited
Q4 & FY23 Earnings Conference Call Transcript
June 01, 2023

Moderator: Ladies and gentlemen, good day, and welcome to the Q4 FY23 Earnings Conference Call of S H Kelkar & Company Limited.

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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Anoop Poojari of 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 & Company Limited's Q4 & FY2023 Earnings Conference Call. We have with us Mr. Kedar Vaze, Whole-Time Director and Group CEO; and Mr. Rohit Saraogi, EVP and Group CFO of the company.

We will begin the call with opening remarks from the management following which we will have the forum open for 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: Good afternoon, everyone, and thank you for joining us today. We have reported a stable performance despite the significant challenges we faced during the quarter.

As I mentioned during our previous call, I outlined key issues and shared the action plans moving forward. I am happy to report that some of these actions have been implemented and has resulted in notable recoveries in areas, which were adversely affected during Q3 FY23. Now I would like to provide you with an update on these issues and progress we have made in executing this plan.

Our Global Ingredients segment continues to face significant cost pressures and had an adverse impact due to the competitiveness in the global market. To tackle these issues, we have taken measures to implement a total backward integration project in India and are currently in the final stages of securing local sourcing for the essential raw materials. As we progress with the ramp-up of local sourcing with the coming quarters, we anticipate a positive turnaround for this segment in a strategic way going forward.

Here, I would like to share an update on the ingredient plant in China, which is part of our business continuity plan. Due to the underperformance of this segment and considering the uncertain geopolitical situation and dependence on China, our Board has made a strategic decision to not make further investments into the country. Consequently, we have decided to impair the plant and machinery which is located in China in our accounts for this quarter.

The onetime issue in Flavours segment witnessed in Quarter 3 was also successfully resolved. The business has resumed. And as you can see in Quarter 4, the momentum on the Flavours business has been high. Furthermore, our CFF European business impacted in first half of FY23 has regained traction with cost optimization and synergies between Holland and Italy operations, which we have been driving through the year.

With this performance, the Board has recommended a final dividend of INR2 per share, which I am happy to say is highest in the recent past.

As we celebrate also the momentous milestone of 100 years of our Company's history in this fiscal year, let me take a moment to reflect upon the journey so far. This significant achievement is a testament to our commitment to delivering exceptional Fragrances and Flavours to consumers worldwide. Throughout our journey, we have consistently pursued excellence, embraced cutting-edge technology, fostered enduring partnerships with our valued customers and suppliers.

The challenges we have encountered in the recent years are transient, and our firm believes in the potential of our business continues to drive us forward. Through strategic measures and focus on our long-term goals, we are confident in our ability to achieve improved results for our company in the years to come.

In conclusion, despite the modest near-term outlook for the domestic FMCG industry, our active involvement in the global FMCG positions us to exceed industry growth in our Core Fragrance division. The strength of our existing client and expanding global presence should help us achieve sustainable business growth in the near term.

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

Moderator: The first question comes from the line of Bharat Gupta with Fair Value Capital.

Bharat Gupta: Hi Kedar, a couple of questions from my side. So, when we look at the overall, like in terms of Flavours, we have definitely keen out momentum. Just wanted to check what has been like in terms of consolidation, what would be the revenues and the EBITDA contribution, which is coming from our organic acquisition?

Kedar Vaze: So, you are talking about Flavours, only Flavours or combined?

Bharat Gupta: No, I'm talking with respect to Flavours only.

Kedar Vaze: So, Flavours, as you know, the acquisition was in this space of QSR and derivative Flavour business. So, this has seen a strong growth with a large marketing spend, which is corresponding to the growth. In this segment, the EBITDA level has been rather muted, but we have been investing heavily in the growth. So, we are talking about ballpark 6% to 7% EBITDA in the acquired business. The balance is the EBITDA from the organic business.

Bharat Gupta: And in terms of the demand, so how are you reading the domestic demand scenario across the Flavours segment?

Kedar Vaze: The demand in the Food and Flavours has been strong. We have continued to see the growth. In Quarter 3, like I mentioned, some deferment of export orders. And the sort of quarter-on-quarter results will keep changing based on the supply and the logistics of the export orders. So, in a full year, we are doing normal growth. But on a quarter-on-quarter, there will be ups and downs when the orders are growing, sometimes there are 2 orders in 1 quarter, sometimes there is 1 order in 1 quarter. So, there is a significant Rs. 7-8 crores swing in the overall Flavour contribution quarter-on-quarter, purely based on the logistics and demand scenario and also export markets.

Bharat Gupta: Also, when we look at the raw material situation out there, so like we're hearing that Chinese players are once again coming back and there has been an ease in the raw material prices. So, at the same time, we are also integrating with respect to Global Ingredients. So how do you see the margin going forward? I'm just speaking with respect to the gross margin. So, are we seeing that there will be definitely a change in terms of gross margin and there will be some sort of improvement going forward?

Kedar Vaze: So, we expect the gross margin to be stable and improve in the future. I don't want to guess very far down the line because the volatility in the raw materials has been very high in the past. As a trend, what we see today is that the raw material prices have stabilized, and they bore well for us to have a stable gross margin or slightly improving gross margin.

Particularly in the European context, we would expect gross margins to improve. But we also have a caveat that the operating costs have also risen due to energy costs going up, particularly in Italy. So, there will be some increase in costs and increase in gross margin. But at the EBITDA level, we expect it to be a good year going forward.

Bharat Gupta: What kind of growth are we envisaging, in terms of both EBITDA as well as in terms of the margin?

Kedar Vaze: I think Quarter 4 is a good representative quarter for the overall results in terms of EBITDA and margins and so on and so forth. If we look at this quarter, the trend of

April, May, this trend continues to hold. And we should be clocking 12% growth and stable EBITDA margin.

Bharat Gupta: Margin in the range of 15%, right?

Kedar Vaze: Yes. For the Quarter 4, it seems we will be at that level or slightly better.

Bharat Gupta: Also, with regard to the RFP, like you mentioned on the last call there were RFPs that we have been awarded worth Rs.300 odd-crores. So, what has been the situation? Have you been able to get any rewards from the customer as such with regard to any RFP?

Kedar Vaze: We have made all our submissions. We have, as we talked about Rs. 300-odd crores of business potential, which we are making submissions of more than Rs. 100 crores potential business annually has been made. We feel that the progress is happening. We are also seeking more feedback from the client on the way forward, and we will revert back with them when we have more clarity on the same. But as of now no change from last quarter.

Rohit Saraogi: With regard to FY24, Rs. 100 crores indication to the top line can be booked in the earnings as such?

Kedar Vaze: It's early to comment on the full year. We are on track in terms of our submission. But we see some changes in the environment, and we are waiting for feedback from the clients.

Bharat Gupta: In the Global Ingredients space, what kind of a capex do we envisage with regard to the backward integration that we are doing?

Kedar Vaze: We will work with partners in the Indian Chemical space. We are not envisaging very large capex. Most of the backward integration projects will be run in way of supply contracts. So, the existing capacity on the Chemicals industry in general, with the aroma chemical or petrochemical or aroma chemical industries, we will use reliable partners to supply us the raw materials.

Bharat Gupta: When we look in Global Ingredients space as well, so like what kind of gross margins should we see or better off in terms of gross margins with respect to the domestic solution? Any improvement over there? And also, with regard to the availability of the raw materials, like with respect to the domestic sourcing, so are we comfortable that 100% is mainly procured by us basically?

Kedar Vaze: Yes. As I mentioned in the opening remarks, we have exited China. We have closed our plant there. We are extremely confident to make all the raw material available within India. All the projects, internal development, everything has been completed. Project is on an execution phase. And by end of the year or second half of this year, we will have it ready to the Global Ingredients business.

Bharat Gupta: Also, if you look at the Italy subsidiary, CFF, how do you read the overall scenario? With all the headwinds, is it sustaining out there in the developed market? So how confident are we with respect to our European operations?

Kedar Vaze: Very confident. I think that the surrounding the uncertainties are now part of their business. So, consumers have accepted that this is the inflation service. So, no panic. It's business as usual. And we see most of our exports are in the Italian and European Markets.

Bharat Gupta: Overall, on the top line, we anticipate that it will be a 12% kind of growth with a stable margin going forward there.

Kedar Vaze: Yes. A comment on the Global Ingredients as their negative EBITDA situation improves through the year, that will be incremental to the business.

Bharat Gupta: Sir, in Global Ingredients space as well, do we anticipate to breakeven like in terms of EBITDA going forward in FY24?

Kedar Vaze: We will be very strong in terms of our margin and EBITDA after second half of this year once our integration project is fully implemented. We see good signs already in the market from the Global Ingredients momentum.

Moderator: Our next question comes from Ganesh Shetty an Investor.

Ganesh Shetty: Congratulations, sir, for completion of 100 years of business, and it is a pride to every one of us being a shareholder that you have completed 100 years successfully and with the best name in the industry, and the best wishes for the future also.

Sir, my first question is regarding the debt level now. We're at around Rs. 470 crores of debt. And over a period of time, we wanted to reduce the debt. But do you see any strategy going ahead in reducing the debt level, sir?

Kedar Vaze: So, I think from operations, so I would divide this into 2 parts. One is the operating cash flow and the investment outlook. So, I think the operating cash flow wise, the debt reduction is happening. We can see that month-on-month and quarter-on-quarter. However, I think this next 6 months, we will have some investments in our Indonesia plant, our second tranche of the Holland Aromatic acquisition plus outflow in terms of dividend. And some non-operating cash flow, there will be certain load in the first half of the year. So, the debt level should steadily come down after a small blip because we will have these investments and outflows in the first half of the year. But we will be around the Rs. 500 crores and then subsequently go down from there.

Ganesh Shetty: My second question is regarding our inorganic acquisition over a period of time. We have done a lot of acquisitions. But at the same time, our revenue is not increasing accordingly. So, I can understand that there were a lot of macro headwinds. But going forward, what would be our inorganic strategy, whether we are done with it and we are trying to rationalize our operations and trying to go for any further acquisition or we are still hoping for that?

Kedar Vaze: So, on the inorganic strategy, while we talk about overall growth, we are seeing that the inorganic or acquired businesses have indeed done well, and we have continued to see momentum and growth. We have had challenges more on our traditional stable business within the smaller clients in India. And that momentum is now being addressed and getting recovered. So, we will continue to have a mix of organic growth and inorganic growth in our longer-term strategy. For the medium term, we are looking at consolidating, ensuring that our results are consistent at these levels, stabilized at these levels. And then we will look at future inorganic strategy.

Moderator: Our next question comes from the line of Amit Kumar with Determined Investments.

Amit Kumar: To begin with a bookkeeping question. For this particular quarter on a stand-alone and consolidated basis, what has been our price growth and volume growth?

Kedar Vaze: Can you repeat the question? It is not audible.

Amit Kumar: So, the question I was asking is for this particular quarter on a stand-alone and consolidated basis, what has been the price and volume growth, breakdown of revenue growth between price and volume really?

Rohit Saraogi: So, the volume was relatively flat, and the growth was led by a price growth.

Amit Kumar: Okay. And I mean we take a price increase on an annual basis. Because raw material prices have gone up during the course of the year. Are we sort of anticipating any sort of price hike in the future? Have you sort of already taken that in January?

Kedar Vaze: There will be always small exceptions. But by and large, the price costs have stabilized. There will be some element of price increase following flowing through, which was contracted, and the new contracts begin in the next year. So, the price increase will only come in the Quarter 1. But wherever the price action or the commitments to the clients and both ways on the supplier contracts and the pricing contracts for the clients, these actions have already been taken.

We will continue to see some price increases flowing through into the accounting as the old contracts complete and the new contracts begin in the subsequent year contracts, which will start from the first quarter. So, in the business, there will be some price increase in the first quarter of next year. But after that, we don't anticipate any further price action in terms of current outlook of the raw material. If outlook of raw material changes, we will consider accordingly.

Amit Kumar: Understood. This 12% revenue growth that we are anticipating for next year, I presume it would be substantially driven by volumes.

Kedar Vaze: Yes. 8% to 9% volume, 3% price is ballpark expectation.

Amit Kumar: But I'm just a little bit surprised by that because, honestly, when you were talking to your clients and at least on the domestic FMCG side, we still don't sort of see any signs of 8% to 9% kind of volume growth as far as the FMCG companies are concerned. I mean it's still 2%, 3%, maybe looking at a little bit of improvement. As you rightly pointed out, inflation has gone down. So probably a little bit more push up in terms of volumes.

Kedar Vaze: The commentary will follow. We are seeing the signs in the cost side and the way the momentum what they are talking about in their public statements and the recorded numbers. We are seeing the momentum at the small clients. The bigger clients will see this in few months, and it will start to drive the business growth. But what we are also seeing is a lot of new businesses, particularly sort of e-commerce brands and smaller brands, which are doing well, and we are seeing growth on that front as well. So, it's not only the established large FMCGs that are growing, but new entrants are also growing in this market. We also expect to gain market share from our competitors in this year. We have very aggressive account plans and specific targeted business plans.

Amit Kumar: I missed the initial commentary. I joined the call a little bit. Probably you talked about this closure of the China plant. So, what's the broad sort of rationale here?

Kedar Vaze: China plant was part of our Global Ingredients business unit, and we have decided to not further invest in China. So, we have taken an impairment charge on that, and we will keep it as an idle plant. Backward integration for all raw materials has happened and is happening in India. So, we will get fully backward integrated by end of the year. And dependence on China will be very small after.

Amit Kumar: This does not impact your ability to service your existing client base; impairment charges would be noncash whatever investment that you have done. But any sort of cash impact or impact on the business going into Fiscal 24?

Kedar Vaze: Correct.

Amit Kumar: Sorry, no impact you are saying?

Kedar Vaze: No impact.

Moderator: As there are no further questions, I would now like to hand the conference over to the management for closing comments.

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

Rohit Saraogi: Thank you.

Moderator: Thank you. On behalf of S H Kelkar & Company Limited, that concludes this conference. Thank you for joining us, and 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. No unpublished price sensitive information was shared/discussed on the call.*