February 21, 2025

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: Transcript of Conference Call for Investor and Analysts

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are enclosing the transcript of Q3 & 9M FY 25 earnings conference call for investors and analysts organized by the Company on Monday, February 17, 2025 at 11:00 A.M. IST. The audio recording and transcript is also available on the website of the Company at www.keva.co.in

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: 2025.02.21 14:21:02 +05'30'

Rohit Saraogi
Company Secretary & Compliance Officer

Encl: As above

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S H Kelkar and Company Limited

Q3 & 9M FY25 Earnings Conference Call Transcript

February 17, 2025

Moderator: Ladies and gentlemen, good day and welcome to S. H. Kelkar & Company Limited's Earnings Conference Call.

As a reminder, all participants' 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 call, 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. Mit Shah from CDR India. Thank you and over to you, Mr. Shah.

Mit Shah: Thank you, Rayo. Good morning, everyone and thank you for joining us on S H Kelkar & Company Limited's Q3 and 9M FY25 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 a Q&A session. Before we begin, I would like to point out that certain statements made in today's call could be forward looking in nature and a disclaimer to this effect has been included in the earnings presentation shared with you earlier.

I would like to invite Mr. Kedar Vaze to make his opening remarks. Thank you and over to you sir.

Kedar Vaze: Thank you. Good morning, everyone and thank you for joining our earnings call today. I appreciate your time and interest in our performance, and I trust that you have reviewed the results documents shared earlier.

We maintained strong momentum during the period driven by robust revenue growth. Domestic FMCG industry continues to witness subdued demand but we saw steady traction across all our segments, particularly in the small and mid-sized accounts. This drove consolidated revenues for the nine months

FY25 to Rs. 1,556 crore reflecting a strong 17% growth year-on-year. While the FMCG landscape is evolving with newer players emerging, our ability to work across a broad spectrum of customers from large global companies to emerging small players has benefited us enormously.

On our European segment, it continues to perform well with core business revenues growing by 11.8% on a like for like basis. Demand in key international markets remains steady, supported by a strong product mix and favourable regional dynamics. Europe remains a high potential market for us where we are making strategic investments to strengthen our presence and enhance our market share.

Focusing on the gross margin, during the quarter, gross margins were impacted by higher raw material prices which have increased faster than anticipated. While near term pressures persist, we expect margins to normalize as raw material availability improves and impact of our pricing actions materializes. Given the ongoing geopolitical uncertainties, we remain cautious and continue to focus on our inventory management to mitigate risks.

EBITDA margin for nine months period excluding investments in newer geographies stands at a healthy 17%. While these investments have resulted in higher costs, they are strategic and essential to strengthening our long-term competitive position and to expand our footprint in new markets and with global MNC accounts. We are confident that over the next 3 years these investments will drive higher market share, greater operating leverage and sustained value creation for both domestic and international markets.

Coming to the Flavour segment, we delivered healthy revenue growth recovering strongly from a low base last year. Alongside top line growth we delivered healthy profitability, supported by improved market conditions, deeper customer engagement and better operating efficiency.

Meanwhile, the turnaround of our Global Ingredients segment remains on track with segment continuing its recovery. This progress is driven by structural initiatives undertaken in the past such as backward integration, coupled with ongoing emphasis on optimization on the operations and efficiency. Looking ahead, the global environment for exports out of India appears favourable providing opportunities to build on this momentum and accelerate growth in this segment.

Coming to our balance sheet position, the net debt stood at Rs. 703 crore as of December 31st, 2024, reflecting the impact of ongoing inventory replenishment following the Q1 incident and capital expenditure at the

Vanavate facility. Additionally, there is a delay in collecting GST refund of over Rs. 50 crore on the export sales which has been pending with the government for over 2 years, impacting our cash flows. While we continue to pursue this claim, we remain committed to maintaining financial discipline and also actively engage with our insurer with a partial claim settlement expected in the coming months.

As we move forward, we remain committed to driving sustainable growth and strengthening our global market position. The alternate production sites now fully operational. Our efforts are being directed towards driving efficiency in reducing inventory and we are confident that our dedication will create shared value for shareholders in the long term.

With that, I invite the moderator to open the floor for questions. Thank you.

Moderator: Thank you very much. We will start with the question-and-answer session. First question is from Bharat Gupta from Fair Value Capital. Please go ahead.

Bharat Gupta: Hi Kedar. I hope I am audible. A couple of questions from my side. So, just wanted to check what will be the investment spend during the Quarter 3 in terms of the Creative Development Centres and how you are going to spend out there in the rest Q4?

Kedar Vaze: Rohit you want to answer that?

Rohit Saraogi: Yes. So, Bharat your question is towards the new investment we are putting?

Bharat Gupta: Right.

Rohit Saraogi: So, in Q4 it was in the range of Rs. 12-odd crore and full year we look at around Rs. 45 to 48 crore.

Bharat Gupta: So, for FY25 it will be towards Rs. 45 odd crore?

Rohit Saraogi: A bit lower because over a period we have increased the spend. So, Quarter 3 is on an annualized basis will come to some Rs. 45-48 crore.

Bharat Gupta: Okay, just also like in terms of you mentioned about the synergy playing out with respect to the investments which you are making. So, just wanted to check will it be towards the US subsidiary or how you want to further leverage position with the MNCs out there in the RFQ space. So, this investment is dedicated to that particular side?

Kedar Vaze: No, the investment is in the two geographies in Europe, UK and the USA, largely on the product development teams which are being hired and put in place in these areas. This allows us to work in these markets UK, Germany, Europe and American markets and at the same time engage with the global MNC at their headquarters. So, it has a dual purpose. We are looking at growing our market share in the local markets, in American market as well as the European market. In addition, it will help us with the global MNC accounts.

Bharat Gupta: Okay, coming on the gross margin front. What has been the key reason attributable for a sudden spurt in the raw material prices? Is it supply constraints like how globally geopolitically how this quarter we have seen such a sudden spike?

Kedar Vaze: The gross margin changes are largely on few natural products which account for quite a substantial part of the cost. So, these are owing to drought situation in Indonesia and Brazil respectively in the last year, resulting in the increase in the naturals cost. In addition, first half of the year we were unable to pass on any price increases to our clients due to the incident and supply chain disruption. So, we have not taken any price corrections in the first half. So, we sort of expected some compression of gross margin, not to the extent that actually played out, but we expected some compression of gross margin. And as a policy we have increased the pricing in this quarter, and we expect the gross margins will restore over the next year. In average for nine months, we are still at 44% gross margin, so we don't expect this to fall further down.

Bharat Gupta: Right. Just also in terms of the guidance, if any colour which you can provide with respect to FY26 and because primarily given the tax relief, so how do you see the order inquiries playing out from the FMCG players for the upcoming year?

Kedar Vaze: So, we are continuing to be committing to our 12% CAGR which we had set out last year. And we are continuing to see that as our trend line for the mid and longer term. This year we are ahead of the curve. We are almost 17% on the nine month to nine month comparison. So, it will end as a strong year. We look at some signs of slowdown in some pockets in the days coming ahead and good growth opportunities in other pockets. So, we see that double digit plus growth we will be able to maintain on the longer term. With the second year or 18 months from now and all the large investments in Europe and other development centres, we will kick start a next leg of higher growth from 18 to 20 months from now.

Bharat Gupta: So, for 18 to 20 months, 12% kind of a growth seems on card for us. And the signs of slowdown you are mentioning that pertains to the businesses which we are deriving from the small and medium enterprises, or it can be with respect to large accounts.

Kedar Vaze: No, the slowdown is largely in the domestic Indian large accounts. We are seeing momentum. It's not degrowth, it is growth. But it is a slower growth than it was, let's say last year or early part of this year. So, we are seeing growth, but the momentum has slightly eroded, I would say towards the last quarter or last month of the third quarter. After Diwali the momentum has been slow. We expect it for the full year to be normal. But at the moment it is subdued on the larger accounts.

Bharat Gupta: Right. So, there has been some sort of a deferment with respect to the new product launches from the large accounts, from the Indian domestic large accounts in a way.

Kedar Vaze: I don't think there is a deferment of new products but overall volume and pricing basis, I think the inflation and the existing saturation of some of the products has resulted in a less rapid growth.

Bharat Gupta: Right. And margins will we able to maintain over 16% to 18% for the upcoming year?

Kedar Vaze: Yes. The margins are at the moment subdued due to these new investments. Next year the margin should be in the same range 16% to 18%.

Moderator: Thank you. We take the next question from Rushabh Shah from Buglerock PMS. Please go ahead.

Rushabh Shah: Thanks for the opportunity. I have two questions, a few years ago, a company foray into a new product category of industrial use of ambient fragrances for the consumer durables and automobile accessories segment. So, how has that business moved for us?

Kedar Vaze: So, that is one of the big growth areas for us. We are continuing to see that is growing. That's why I mentioned in my call newer areas. So, that is one of those segments which is growing which is not the traditional FMCG.

Rushabh Shah: So, sir, have you made any further investments into that?

Kedar Vaze: Investments in what sense?

Rushabh Shah: In that new product category.

Kedar Vaze: It is already in our portfolio. We continue to grow it. There is nothing, no new investments or new product development. This is largely in the Asian market and in the Indian market. So, all the teams are there. Everything is in place already.

Rushabh Shah: Okay. Sir my second question is so what are the key risks you see in your business? See the raw material risk is one of the risks which is always going to be there. That is the nature of our business. But what are the other major risk do you see in our business for a longer period of time?

Kedar Vaze: So, it's a consumption driven business. There is always a fragrance and flavour requirement whether it's high economic growth or low economic growth or recession. So, that's a very strong positive for us. From a business risk, I think industry as a whole is extremely resilient. It's very defensive in downturns and slow and fast growth. It continues to be growing and it's a profitable industry. Within the industry the risk effectively is the competitive intensity. How we are able to compete vis-à-vis our competitors. And that's really the main concern or main risk that competitors do much-much better than us and we don't grow, or we are not able to keep our market share. That is the only risk. So, it's not a very big disruption industry in that sense.

Rushabh Shah: Just a follow up sir. So, how has the competition been for you in the past 5 years, has it grown or have you gained market share? How has that been?

Kedar Vaze: We have actually lost some market share during the year of demonetization and GST. Apart from those 2 years, we have continued to gain market share, will continue to grow faster than the industry average and faster than the competition.

Rushabh Shah: My last question is at the company, in Netherlands called Isobionics, we created a product called Santanol, which is a three key ingredient for sandalwood oil. So, how have we been able to take advantage of that and how it has benefited us?

Kedar Vaze: To this partnership we are basically their exclusive distributors. We have number of products built on this partnership which we are making and selling. To kind of give you a ballpark number, about Rs. 60 crore of revenue this year or something like Rs. 65 crore of revenue this year will be coming from products like what you mentioned with our past collaboration or past closely working with Isobionics.

Moderator: Thank you very much. Next question is from Jainam Ghelani from Svan Investments. Please go ahead.

Jainam Ghelani: Hi sir. Thank you for this opportunity. So, as you mentioned to an earlier participant that we can expect 16% to 18% margins for FY26. So, what gives us that confidence, have we signed new contracts with the price hikes, or do we see the overall industry and market improving?

Kedar Vaze: So, I think the price hikes is not a difficult situation. We are in a discussion with the clients and that will happen in the normal course of business. So, there is nothing. If you look at the third quarter results, the top-line growth has been robust. We don't see any reason to feel that the top-line growth is challenged for us in the coming years. So, the top line momentum is good, on the gross margin all corrective actions have been taken. So, we expect the gross margin to slowly change upwards. And on the cost structure, whatever the expected growth, (+12%) growth next year, we will normalize our cost structure as we have invested heavily this year. Next year that will balance out. So, we are very confident of delivering 16% to 18% for next year.

Jainam Ghelani: Okay. And sir, so can we expect that from Q1 FY26, the gross margins could come back to our normalized levels?

Kedar Vaze: I think Q1 next year the trend will be upwards, whether it is fully recovered because again there have been big changes in the dollar to rupee as we speak. We need to factor that in and see how much of that will translate into cost increases for us and all of that may disrupt the gross margin recovery, but it will be upwards than Quarter 4, Quarter 3 this year.

Jainam Ghelani: Okay. And how is our MNC order progressing, would it be possible to quantify in terms of revenue or in terms of percentage by any chance?

Kedar Vaze: Yes. So, we have indicated around $10 million business this year. I think we are on track to achieve that number, and we expect it to continue to grow.

Jainam Ghelani: Sir, can we expect that to be almost 20 million next year?

Kedar Vaze: No, it was kind of 3 to 4 million, somewhere between 3 and 4 million last year. We will be around 10 million this year. I expect that to continue to grow by 20%-30% here on.

Moderator: Thank you. The next question is from Prakash Kapadia from Spark PMS. Please go ahead.

Prakash Kapadia: Kedar, a couple of questions from my end. In FY26, how are we looking at sales in India? What I am trying to understand is government is focusing on boosting consumption. So, are we seeing more inquiries or some new product developments or it's too early to gauge demand recovery in India? That's the first question. Secondly, if I look at employee cost, they are up sequentially by 10%. So, from this base, given that the Development Centre is opened, and we have taken the global route for scaling, what kind of an increase should we expect from next quarter onwards on this base? And you mentioned the insurance claim you should get maybe next month. So, what kind of debt are we looking at by the year end and what could be the CAPEX for next year? Those are my questions.

Kedar Vaze: Okay, so the first question in terms of the growth, while there is a lot of slowdowns on the larger clients and in the economy in general in India. We have not seen really a slowdown in our overall business. We continue to have strong growth. I think the budgetary provisions in terms of reducing some of the tax slabs main in fact spur some more consumption which will be beneficial for us to further have good growth years. And on the cost, I think the Quarter 3 number on the cost of all the centres is largely fully costed in the Quarter 3. There may be some incremental 10% additional cost as we finalize and fill up some of the last positions left. But by the end of this year, we will have those costs all in the book as Rohit has earlier mentioned, around Rs. 45 to Rs. 48 crore of full year cost is what we have onboarded in this year. And that will continue to be in the normal books and grow at I guess 5% to 6% inflation year-on-year. We expect our business to grow double digit plus so we will compensate. It should be quite normal next year if we grow 12% to 14% top-line, and our numbers will all fall in the right way. The last question was on debt and inventory, and I think the focus on inventory reduction is now, we expect that inventories will come down in the next 6 months. Proportionately debt will come down by almost Rs. 100 crore in addition to the insurance payout which is expected anytime now.

Prakash Kapadia: And on the India side, being a key supplier and part of their supply chain. When do we get a sense of demand? How difficult or easy is it to scale? What I am trying to understand assuming some of these initiatives by the government fructify in terms of demand coming back from Q1 onwards. So, how soon or how much time does it take for us to fulfil? Because I am sure if there are new products you would have got a sense.

Kedar Vaze: Your question I have already answered. Once again let me reiterate. While the overall news of slower demand in the larger accounts is there, the grassroots demand in totality for us has not been low. I think we have taken substantial market share from competitors in this period since the overall demand was lower. But our growth has continued on normal, actually very robust 15% year-on-year quarter growth. So, we have a strong growth trajectory. We have not seen any slowdown in our business yet and we expect that there is more growth in the early part of next year as the steps that the government has taken to increase consumption start to play out in demand generation for our clients.

Moderator: Thank you. Next question is from Rohit Nagraj from B&K Securities. Please go ahead.

Rohit Nagraj: Thanks for the opportunity, again delving on the debt part. So, can you let us know what is the bridge between say FY24 yearend debt of Rs. 500 crore and Rs. 700 crore? So, what are the components which have increased the debt by 200 crore including inventory, maybe the CAPEX or Vashivali facility for which we will get the claim incrementally? So, how this Rs. 200 crore can be segregated among these pockets? Thank you.

Kedar Vaze: So, I think if you look at the Rs. 200 crore, we have almost Rs. 140 crore of inventory losses which have been replenished. We have built up another Rs. 50 crore of inventory over and above the Rs. 140 crore which we have replenished. So, Rs. 200 crore of cash flow has gone into inventories. Rs. 75 odd crore has gone into capital investments for rebuilding the factory, most of which will be covered by the insurance repayment. And around Rs. 50 crore is stuck in the GST refunds which is in process. So, this is the effectively cash flow that is incurred over and above the normal routine. And that's where the debt has gone up from the Rs. 540 level to Rs. 700 crore.

Rohit Nagraj: Sure. The second question is for the quarter and for nine months, how has been the growth from volumes and pricing, if you can just break it up?

Kedar Vaze: So, most of the growth has been volumes, we have very limited price corrections being done in the last nine months, so almost all of that is volumes. There may be some impact of currency exchange rate but mostly it is volume.

Rohit Nagraj: Just one last clarification. On the development expenditure, so FY25 we will be completely doing away with the development expenditure of about Rs. 45-48 crore. And from next year onwards there will not be any incrementally on this part except the inflation adjusted increases that will happen on the base?

Kedar Vaze: That's right. So, our objective and it's pretty aggressive investment. We have covered all the four major areas where we want to operate, Southeast Asia, India, Middle East, Europe and America. We have put in teams and development teams and production, operations teams, so that we are catering to all these four markets. And we have no plan to grow beyond these four markets in the near term or even medium-term business.

Moderator: Thank you. Next question is from Kiran D from Table Tree Capital. Please go ahead.

Kiran D: Thank you for the opportunity, sir. Just want to break down into segments. So, when we are talking of 14% sales growth or whatever the CAGR is for the next year or two, I mean I am just putting in calculation. So, it's about Rs. 3,000 crore will probably hit by FY27. That's a very-very healthy growth. So, what I am trying to do is, is there a faster growth that we are going to get in Flavours division versus Fragrances division. And the reason why I am asking is on the Flavours division we have grown very healthily this quarter or at least even in the nine months. And it has a very healthy EBIT, right? It's close to 22% EBIT. So, it's adding far more to the bottom line as a percentage than the Fragrances for these nine months. So, if we are expecting more and more Flavours growth then our operating margin automatically has to bump up quite a bit. So, I am just trying to see where the growth is going to come from. Is it more heavily loaded into Flavours, which means our EBIT would be faster or is it going to have more Fragrance?

Kedar Vaze: I understood your question. I think in the Flavours business, we did investments 3-4 years ago and now it is in the kind of full recovery of the investment. So, it is actually delivering results which are higher than the average result for the Flavours industry we expect. So, another 2 years from now we expect some more investments in the Flavours business, similar to what we have taken up in the Fragrance business in the last 2 years and this year. So, every sort of momentum, we are on the lower side or below the average on the fragrance side, we are in the investment phase. In the Flavours we have finished the investment phase, we are now in the growth phase, sort of in the second half of the growth phase. And couple of years we will need further investments in Flavours and then you will see the Fragrance margins have restored and improved and the Flavours margin position, we will require the next stage of investment. So, this is kind of not structural in terms of our business. It's just the level at which we have investments vis-à-vis the growth maturation. So, within Fragrances, let say the India business, which is the most mature, has much higher results. But it also means that our market share and as a result of our market share, our growth is lower in new markets which we expect the growth to kick in and give us much faster growth. So, it is true that the Flavours margins have been better this year compared to, let's say 2 years ago and overall Fragrance business. But structurally both businesses are the same. So, it's not going to result in any differential in a 2-to-3-year horizon, it will even out. Even out means the Fragrance will start to catch up with the Flavours, not the other way around.

Kiran D: Okay, got it. Understood sir. Then from a gross margin standpoint, we are taking the price hikes and so on and so forth. Are there any alternatives? Let's say the drought continues for a year more. I mean we have seen what happened to cocoa prices for a while now. So, are there any alternatives that we can think of over the next year or two in terms of replacement or there is no replacement for any Indonesian or Brazil drought kind of situations?

Kedar Vaze: I think the Brazilian drought and Brazilian issue is affecting some of the citrus and other products is a more structural issue. So, we have worked with some Indian vendors. We have now large part of domestic sourcing for these kinds of natural products. So, that will kick in this year and early next year. Maybe by that time we will have some alternate to the situation in Brazil. For Indonesia, it's not really an easy alternative or replacement, it is quite widespread product, and this is a short cycle product relatively. So, in six months things should be correct.

Kiran D: Got it, sir. And my last question, sir. I mean we have grown substantially higher in India. We were very hopeful of the Europe business grow, much faster than the averages because we are going to take market share away because Europe is having a slow down and so on and so forth. Now beyond the investment because the investments will pay off in the next 18 to 24 months in the Europe business. In the interim period, do we see continuing gaining market share in the European market as in right now 9.5% growth is from Europe. Can we see a structural improvement there where it goes to 12% to 15% from Europe in the interim 18 to 24 months or that's going to happen only after the 24-month period?

Kedar Vaze: No. So, we need to understand the European business is grown at 11.8% like for like last year to this year. For a European market which is growing less than 2%, a 12% growth is a 10% faster growth than the industry or the market average. So, we are doing exceedingly well. We also need to be cognizant that there is no or much lower inflation in the European zone. So, when we look at the 11.8% or 12% growth in European context, it's a very healthy growth. So, there is nothing there which is sort of low growth in any which way. It has been a good substantial and fast growth in Europe, and we expect it to continue going forward. We will reach a point in year or two where we need to invest in production capacity in Europe as we have now invested in the development capacity and the sales momentum, it will be a good problem that our capacity is fully utilized, and we need to invest in the next phase of growth.

Moderator: Thank you. Next question is from Sandip Sabharwal from asksandeepsabharwal.com Please go ahead.

Sandip Sabharwal: I have tracked the company now for 12 to 16 quarters. My question is that there is a lot of volatility in the performance of the company. Sometimes suddenly the growth slows down and then there are some reasons for that and sometimes there is some margin squeeze which happens. 2-3 years back you had indicated a glide path for reducing the debt substantially. But we have actually seen that the debt expands. So, leave aside this fire which happened because there were some acquisitions you did at some stage then suddenly some CAPEX comes up. So, it's very tough for investors to actually evaluate what's happening in your company. Can you make some comment on this?

Kedar Vaze: Yes. So, let's say not everything goes as what is planned. Let's understand that point of view. We are seeing in terms of the investment cycle and opportunities. We are seeing opportunities for large investments, and we are not waiting for those opportunities because those opportunities come in like we have invested behind global MNC, that business can happen. We have been trying for 10 years and when it did happen, we need to substantially invest behind that business, put the development centres, put the production facilities etc. in other geographies that we maximize on that opportunity. So, yes, while the track record in the quarter-on-quarter, year-on-year has not been predictable on a longer term. We are doing exactly what the industry and the business requires, and we are building a strong foundation for continued profitable growth and continued cash flow conversion. We are not there; we are not in the end of the size where we are now globally present everywhere in matured market and we can then have extremely high predictability. We are still in that way hungry and fast-growing company in the industry. So, we will have ups and downs as we adjust our strategy to opportunities and events that happen in the global world.

Sandip Sabharwal: Just one clarification, you talked about this Rs.140 crore loss of inventory. So, was this the loss of inventory in the fire and this will also get covered insurance, or I didn't get that?

Kedar Vaze: Yes. So, the Rs. 140 crore that I talked about is the inventory that was lost in the fire. We expect a substantial part of that to be paid by the insurance in let's say next few months.

Sandip Sabharwal: Rs. 140 crore plus Rs. 75 crore for the factory, so total will be around Rs. 215 crore will be your claim and then whatever the insurance company clears for you?

Kedar Vaze: That's correct.

Moderator: Thank you. Next question is from Amit Jain from Monarch Networth Capital. Please go ahead.

Amit Jain: Thanks for the opportunity. Just a few, just couple of things. One, on the margin front, when you are guiding this margin of 16% to 18%, so my understanding is that whatever investment that we made, most of them are recurring in nature. So, have we taken this guidance takes into account those expenses like when on the creativity centre, these must be salary expenses? So, I just want to check my understanding whether it is correct or not?

Kedar Vaze: Yes, so your understanding is correct. It is taking into account the normalization of the gross margin and the continued growth in double digit plus growth that we expect. So, this will happen as a combination of these two events. The costs are recurring nature. Our size of business will grow much faster than the increase in the cost plus the recovery on the gross margins which is expected now will bring back the position on the profitability.

Amit Jain: And secondly sir, as far as this price division which you are taking for your clients. So, just want to understand what is the mechanism? So, it happens once in a year or what exactly the mechanism for this price revision ? Because you mentioned you that last year you could not take this price because of that fire incident. Just want to understand what are this mechanism for this price revision?

Kedar Vaze: Normally every six months or so we review the cost structure and cost increases. We go back to the clients. If there is a substantial change in the input cost, then we go back to the clients with pricing corrections. So, this is a normal process which is reviewed every six months. And it's not that pricing happens to all clients and all products happen one go. It's a continuous process. But at some point, you have bigger corrections. But you cannot plan the exact timing when the raw material increases and when you are making the quotations to the customers. So, there will be some periods when there is a margin compression and likewise there is margin expansion in other times when you have the price increases have come in place and the costs have not yet hit the accounting.

Amit Jain: Okay, just a follow up question on this. So, the dip that we have witnessed in this quarter last quarter, can it be treated as an aberration or we can see such bouts of dips whenever such price correction happens, the abrupt hike in the raw material prices?

Kedar Vaze: So, what has happened is as you know we are carrying lot of inventory. And in the replenishment of the inventory in the fire, some of these raw material prices had already gone up substantially. So, we got a hit in the last months of the calendar year. In normal situation we would have increased the prices to the customers before the increase in the inventory cost would have hit us or simultaneously. So, we have a mismatch of 3 to 4 months of inventory which was kind of, I would say destroyed in the fire or which had an impact in that period.

Amit Jain: And lastly sir, we have a very sticky business because of this fragrance business. Now when we are guiding for double digit growth, above the industry growth and if we exclude this large MNC account. Are we still hoping that, yes, we will be beating this industry level? Just want to understand the share of the new clients we are adding and this overall when we are guiding for let's say 12%-14% revenue growth for coming couple of years going forward?

Kedar Vaze: Yes, we are not considering the global MNC growth in the 12% CAGR that we outlined and that's our strategic growth. We have enough customers, enough engagement with new products and current volume growth, plus new markets in Southeast Asia, Middle East, Europe and now we are starting in the US. So, we have lot of markets where our penetration levels are quite low and that allows us to grow faster, and we see enough engagement across all the customers we have to enable us to grow at (+12%) year-on-year.

Amit Jain: So, basically, majorly this growth will be led by new client addition, or it will be a mix of both higher wallet share and new client additions?

Kedar Vaze: Both, higher volume share, new client and new geographies. So, completely new areas and new clients in those areas.

Moderator: Thank you. The next question is from Amrish Kacker, who's an individual investor. Please go ahead.

Amrish Kacker: Thank you for the opportunity. Just one question from my side; on a broader and longer time frame, is there some more detail on the Flavours business that you could share or a timing of when you're likely to outline broader ambition for this?

Kedar Vaze: So, the Flavours business is, its business division that has started later than the Fragrance business. So, it is about 25 years old compared to 100-year-old business which is the Fragrance business. Having said that it has its own trajectory. We have continued to build it up from zero with some acquisitions and we have now finished the investment as I am mentioning in the development and the production for the current size, and we expect it to be a good strong (+15%) CAGR growth business. So, eventually it will grow faster than the Fragrance on the current base. On the overall the Fragrance and Flavours business, globally is roughly split equally we have there. So, we see in the longer term that the Flavours business will have more and more percentage of the overall business.

Moderator: Thank you very much. We'll take that as the last question. I would now like to hand the conference back to the management team for closing comments.

Kedar Vaze: Thank you. I hope we have been able to answer all your questions satisfactorily. Should you need any further clarification or would like to know more about the company, please feel free to contact our team of CDR India. Thank you once again for taking the time.

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

-End-

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