



November 14, 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 herewith the transcript of the conference call for investors and analysts on the Q2 & H1 FY26 results held virtually by the Company on Wednesday, November 12, 2025 at 05:30 P.M. IST.

The transcript is also available on the website of the Company at <https://keva.co.in/investor-updates/#92-250-q2-1758893704>.

Please note that no unpublished price sensitive information was shared by the Company during the said conference call.

This intimation is also being uploaded on the Company's website 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

Deepti Chandratre
Interim Chief Financial Officer, Global Legal Counsel & Company Secretary

Encl: As above



S H Kelkar And Company Limited
Lal Bahadur Shastri Marg, Mulund (West), Mumbai - 400 080. Tel : +91 22 6606 7777
Regd. Office : Devkaran Mansion, 36, Mangaldas Road, Mumbai - 400 002. (INDIA)
Phone : (022) 2206 96 09 & 2201 91 30
www.keva.co.in
CIN No. L74999MH1955PLC009593



S H Kelkar and Company Limited
Q2 & H1 FY 2026 Earnings Conference Call
November 12, 2025

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

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this 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 from CDR India. Thank you, and over to you, sir.

Anoop Poojari: Thank you. Good evening, everyone, and thank you for joining us on S H Kelkar and Company Limited's Q2 and H1 FY 2026 Earnings Conference Call.

We have with us Mr. Kedar Vaze, Whole-Time Director and Group CEO; and Mr. B. Ramakrishnan, CEO, Fragrances, Asia and U.S.A. 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: Hi. Good evening, everyone, and thank you for joining us today at our quarter 2 and H1 FY '26 earnings call. I trust that you have a chance to review the results document.

During the first half of FY 2026, we reported consolidated revenue growth of 12% year-on-year, driven by steady demand across all our core categories, continued traction with both existing and new customers. The Fragrance business sustained its growth momentum, supported by stronger relationships, particularly with small and mid-sized clients, and the Flavour

division delivered healthy performance across the board, both in domestic as well as export markets.

In the European Fragrance business, the business environment remained soft, and therefore, sales were muted in the first half. The brownfield expansion in the Netherlands is progressing as scheduled and is expected to be commissioned by end of the fiscal year. Once operational, it will help address capacity bottlenecks and improve cost efficiency. With market sentiment gradually improving and new capacity additions nearing completion, performance in this region is again expected to strengthen in the next year.

The Ingredients segment had a muted quarter, impacted by demand softness and uncertainty arising out of tariffs. The continued trade uncertainties are getting resolved and the medium- and long-term outlook remains encouraging, supported by supply chain diversification, new product additions and increasing demand from European customers.

On the profitability front, I would like to point out that H2 FY '25 serves as a more appropriate base for comparison as profitability in the second half had dramatically dipped due to sudden spikes in raw materials and on account of new initiative investments coming to fruit. So, comparing to H2 FY '25, the margin during first half remained broadly steady. While we see gross margin improvements in the underlying raw material situation due to the inventories, the full effect of the decreases are not yet factored in our results. Overall, we recognize that the reported margins were lower during the quarter, reflected also the ongoing investments made to strengthen our growth ambitions in new geographies. In total, Rs. 32 crore was invested in new initiatives during the first half. Further Rs. 7 crore were incurred additional insurance costs during this period.

Adjusted for this, our EBITDA margin stood at 14.5%, broadly comparable to the 14.4% in the H2 FY '25. We believe these investments in expanding our creative centers and capacity enhancement projects across India, Europe and the U.S. are essential building blocks for sustained growth and profitability over the next decade. As these initiatives contribute to our performance over the next 15 to 18 months, we expect margins and profitability to substantially improve.

To conclude, we remain focused towards our long-term vision of emerging as a globally recognized leader in Fragrances and Flavour solutions. Our sustained focus on R&D and innovation will continue to enable us to create differentiated products and technologies, many of which are being developed for the first time in the world. We are confident that this commitment to innovation will be central for our next phase of growth.

With that, I would now request the moderator to open the floor for questions. Thank you.

Moderator: Thank you very much. We will now begin with the question-and-answer session. The first question is from the line of Jatin Chawla from RTL Investments. Please go ahead.

Jatin Chawla: Good evening and thanks for the opportunity. Yes. I have a few questions. So, the first one is this Rs. 32 crore amount that you quantified for investment in new initiatives, that is for the first half, right? What is the amount for the second quarter? Just to get a sense on the margins. The second quarter, we have seen a much bigger impact on margins.

Kedar Vaze: About Rs. 17-odd crore.

Jatin Chawla: Okay. And this additional insurance cost, INR7 crore was largely again in 2Q only?

Kedar Vaze: No, this is again for the half, quarter 1 and quarter 2.

Jatin Chawla: Okay. So, there will be a Rs. 7 crore cost in the second half also?

Kedar Vaze: That is correct.

Jatin Chawla: And on the development centers, you mentioned India, U.S. and Europe. So earlier, I think you were talking only about India and Europe. So, U.S. is a new initiative?

Kedar Vaze: Yes, U.S. is a new initiative. Europe, we have already done. U.S. has been sort of operationalized. That is why I mentioned it specifically this time around.

Jatin Chawla: And this investment in U.S., is it again to kind of further penetrate deeper into our global MNC account? Or is this for some new clients that you are targeting in the U.S. market?

Kedar Vaze: Global MNC account and also, we anticipate good domestic business momentum in the U.S. due to the tariffs. So, we are focused on U.S. market and manufacturing within U.S. as a quick turnaround.

Jatin Chawla: So, this is not only a development center. Will this center do some manufacturing also in that case?

Kedar Vaze: No, we will align with the manufacturer locally. Leased out tolling or lease model.

- Jatin Chawla:** My sense was that this is for a client in their product, this will be a very small value. So, the Fragrances that you supply. So, do they really care so much about 15%, 20% tariff on that kind of a product?
- Kedar Vaze:** No. So, it is not only about tariff. It is also the fact that we have ability to produce locally, and we can give good products at a competitive rate. So, it is not only about cost, it is also making the right products, which is why our development center has been started first. We are making development on kind of consumer-like products. And 15% tariff additionally helps us if we manufacture within the U.S.
- Jatin Chawla:** And one last question. What is the traction with the global MNC client? Have we seen any further traction this financial year? Because looking at the numbers, and your commentary, it seems the growth is largely driven by the domestic small and medium clients. So, we have not really seen much traction with the global MNC client.
- Kedar Vaze:** It is in line with the growth. There is no big jump so far. We expect second half, we will see some more traction, it is typical how things have been evolving with the larger accounts. First half, we have no substantial new wins or new adoption. They are a bit slow on that, as I mentioned last time. But there are projects in the pipeline where adoptions are a bit slow. We have won some projects. They are just not adopting and starting that immediately. So, we expect that ramp-up will happen.
- Jatin Chawla:** Okay. So, projects have already been won with them. What I was saying was, so from what you are saying, it seems second half and as we head into FY '27, should we expect that this 11%, 12% growth rate will further improve on the back of some traction with the global MNC account and the development centers that you have created in India, U.S. and Europe?
- Kedar Vaze:** Yes. I think there is a growth momentum. So, if you look at the first half, April, May was very soft, particularly in Europe. Subsequent momentum is much stronger than the first couple of months. So, we expect second half to be better than the first half. In most years, the second half is much higher growth than the first half of the year.
- Jatin Chawla:** And sorry, one last question. On raw material, you said RM prices have already improved, but you have not seen the benefit yet. So, when the benefit does come in, what sort of gross margin improvement do you expect?
- Kedar Vaze:** So, we went from 45% to 39%. We are somewhere around 42.5% for this half. Things will improve from here further 1%, I think 1%, 1.5%, something like this going forward.

- Moderator:** Thank you. Next question is from the line of Abhijit Akella from Kotak Institutional Equities. Please go ahead.
- Abhijit Akella:** Good evening. Thank you so much. Yes. So, a couple of questions from my side. One is on the expenses. So, this quarter, there has been some further sequential increase in the expenses. Of the Rs. 38 crore incremental cost that you called out in 1H, how much would the amount be for 2Q overall?
- Kedar Vaze:** Q2 is about Rs. 17 crore. I already mentioned that. However, it is a peak level of new initiatives. Everything that we were planning to put in has been put in, and this is now the run rate, and it will start to generate revenues against these investments.
- Abhijit Akella:** Okay. So Rs. 17 crore out of the Rs. 32 crore is in 2Q, plus maybe Rs. 3 crore, Rs. 3.5 crore out of the insurance, Rs. 6 crore, INR7 crore is also in 2Q. So about INR20 crore overall in 2Q and yes. Okay. And this is the new run rate.
- And on the revenue side, on a sequential basis, 2Q versus 1Q, we have seen some softness in the India side of things. Fragrance revenues are a little bit lower. Flavours also down sharply, I think, from Rs. 43 crore to Rs. 26 crore. So, anything to read into that? Or is it just a phasing issue? And should we expect a pickup as the GST benefits come through?
- Kedar Vaze:** Yes. Just seasonality, I do not see anything big. I mean quarter 2 is slightly below quarter 1. That is nothing to be called out. I think there is an effect of Diwali being a bit earlier in this calendar. So, some of the sales are a bit earlier in the quarter, but nothing specific, its business as usual. And we expect, yes, as you mentioned, with the GST and the second half sales definitely will see a bigger momentum.
- There has been some categories, particularly things like ice creams and beverages where extended rains have meant that demand has been lower than normal in the Flavour side, but nothing which is substantial or kind of a strategic difference. Things will catch up in the second half.
- Abhijit Akella:** Okay. So just from the outlook front, we are still guiding to 12% plus revenue growth for this year, right, on a full year basis? And on the margin front, the annual report had previously mentioned a figure of 18% to 20% EBITDA by FY '27. So, I mean, I know the investments we are making are fairly heavy, but any number we would like to hold out there that we could sort of set expectations with?
- Kedar Vaze:** I see that about a percentage will come straight away from the gross margin as the raw material situation improves. Additional percentage will come in from the operations getting into consolidated factory. These are the two expenses

which are currently much higher. On the new initiatives, we have good traction. We have already seen roughly annualized basis, 3 million to 4 million of business approved. So, it is a matter of time before that starts to be supplied. So, these are very positive signs. And I mean the business momentum is there. I think the growth will compensate for all the investments we are doing. If you see one of the indicators of the rest of the world growth, it has been strong and it is continuing. These are all the new areas.

Moderator: Thank you. Next question is from the line of Prakash Toshniwal from LIC Mutual Fund. Please go ahead.

Prakash Toshniwal: So just trying to understand, you are saying gross margin improvement of 100 basis points in the H2 FY '26. Is that correct if I understood?

Kedar Vaze: That is correct.

Prakash Toshniwal: Okay. And in past, you have mentioned that raw material cycle is almost getting shorter. So, 6 months, 7 months visibility we used to have. Now you are saying that visibility is there at least for the 1 year. Is that what I understood when you said that 18% to 20% margin is possible in FY '27. So, can you just elaborate more on the raw material side?

Kedar Vaze: I think the raw material situation, we know where we are in the coming 12 months, plus the factory cost and the additional transport, additional logistics, all of the additional costs we are incurring in the current manufacturing where we are operating smaller plants in multiple locations. So those things will all be reduced.

Prakash Toshniwal: Okay. And the growth side, is it a 15%, 16% is a reasonable number to expect once everything materializes for this year, FY '27, can we expect a 15%, 16% kind of growth number?

Kedar Vaze: Yes. I have always sort of said about 15% kind of growth year-on-year with occasional year or half year where there is some macro event or something which disturbs the growth. But underlying business momentum is strong. We see continued traction. I do not have any concern with 15% growth year-on-year basis.

Prakash Toshniwal: Okay. Okay. And just on these one-off expenses which you have made investment, Rs. 32 crore in the first half and Rs. 17 crore in Q2. What is this number possibly if you can guide for Q3 and Q4 going to be?

Kedar Vaze: So, the number is going to remain around the Rs. 17 crore per quarter, so Rs. 32 crore for the second half, Rs. 33 crore. Depending on the currency exchange rate in rupees, it will change a bit, but the dollar-euro basis, it is now fully costed

in. This is the new cost structure. And the growth for this has now started to come in. So, we have been at it from last 12 months. The teams are in place. Sales teams have started visiting some initial trial orders or initial feedback has started coming in. So, we are looking at maybe another 6 months, but thereafter, it will start to generate strong revenues.

Prakash Toshniwal: Okay. Okay. Sir just last request to point out, it would be great if you can schedule a call post result as early as possible. This 2-day gap is really, I mean, making us anxious as an investor.

Kedar Vaze: Right. I will keep that feedback in mind.

Moderator: Thank you. Next question is from the line of Bharat Gupta from Fair Value Capital. Please go ahead.

Bharat Gupta: A couple of questions. So first, with respect to the profitability for the second half, I think somewhere in the last con call, you mentioned that you will be maintaining an EBITDA margin of somewhere close to 15-odd percent. Going by the first half, I think with order to achieve on this particular front, we need to have a run rate of Rs. 220-odd crore going forward. So are you going to revise this guidance or you are currently sticking with it? Because like you mentioned that the cost will continue to incur in the second half as well.

Kedar Vaze: I will come back with the exact number drilling down with latest estimates, but the growth momentum is very strong. It is not different than what we expect. The exact cost vis-a-vis the new initiative and the currency, we can factor with the hedging, and we will put out a revised estimate. But it is, I think 14%, 15%, we should be able to achieve. Once the factory is operationalized in early next quarter, we will see a sharp drop in the operating expenses.

Bharat Gupta: Right. Sir, secondly, with respect to the post GST reforms, have we seen any particular momentum with respect to our Tier 1 clients or the MNCs versus holding on the inventory and that is why the domestic demand was muted from therein?

Kedar Vaze: No. I mean we have not seen any decline in revenues. We have not seen any uptick either. It has been business as usual. Although the reported numbers for some of them are on a lower growth trajectory than previously, we have not seen substantial change in our sales. Again, I believe second half growth will be better.

Bharat Gupta: Right. Right, sir. And sir, the run rate you mentioned like close to Rs. 97-odd crore with respect to the other expenses. That will be the run rate going ahead for the subsequent quarters as well, right?

- Kedar Vaze:** So, the operating expenses are now at the level which is the maximum. We also have our annual increment cycles, all of that happening in the second quarter across the world. So, all of that is factored in the quarter 2 numbers are more or less the, I would say, steady state, barring whatever currency exchange rate difference may be there.
- Bharat Gupta:** Right. So, this run rate is likely to be there for the second half.
- Kedar Vaze:** That is correct.
- Bharat Gupta:** And just a question on the debt number. So, we have seen an increase from the March quarter. Like how do you see, whether the debt number will remain on this particular level or there will be a reduction by the second half?
- Kedar Vaze:** So, we are following up with the insurance on substantial payments, which are expected any moment. Keeping that in mind, the debt number would start to come down. And our last investments in the factory are happening as we speak. So, it is kind of difficult to know exactly end of March, but I expect it will be at this level or slightly lower than these levels. Some of the debt in European terms or U.S. dollar or euro term has been restated. That itself adds to roughly Rs. 30 crore of additional debt, which is in a way notional because the sales and revenue and profitability is also in euros. So that should offset the additional debt in terms of cash flow.
- Moderator:** Next question is from the line of Henil Bagadia from Equicorp Partners LLC. Please go ahead.
- Henil Bagadia:** Thank you for the opportunity, sir. I just got some few strategic questions. Sir, with respect to the U.S. geography, sir, what is the strategic road map? Because when we entered Europe for the first time, we had actually done 2 acquisitions, that is Holland first and then CFF and it then took us a decent amount of time to turn it around and then we got access to market as well as tech. So given our current debt size and our revenues and our cash flows, I do not think so we will be in a position to do any acquisition in U.S. So, what is the strategic road map there to grow the business?
- Sir, and the related question to that is, since you put up a new creative fragrance center in New Jersey, so what is the stand-alone cost for that? And based on the current tariff and also the supply shocks and the consumption shocks there, are we seeing any drawback in terms of opex right now? And probably once things start getting more clearer, we would gradually increase the number of people deployed there and then take it to the fair levels what we have forecasted.

Kedar Vaze: So, the U.S. strategy basically has been development center more or less on the fact that we have the tie-up with the global accounts, and we needed to be in the U.S. market to take up some of the projects there. As we are already set up these centers, we are also looking at some smaller and mid-sized companies or customers within the U.S. So, this has been kind of additional strategy. We are not expecting to increase our number of people on this front. We have a sort of, I would say, satellite development center. It is fully equipped to address the needs of the U.S. customers. But it will continue to be supported from Europe and Asian creation centers for additional resourcing as and when it is required. So, it will not be a full-fledged development center in the U.S., but it is kind of a satellite center, which has support from the other centers for all its creation and development.

Our main strategy in the U.S. is to look at the patented products and technologies and to focus on the larger accounts where we are proposing some of these new disruptive technologies.

Henil Bagadia: Okay. So, the large F&F players are actually focusing more on the natural extraction side on using more of the biotech technology side that they have been actually also tying up with a lot of players. So, 2022, '23, '24, we actually saw a lot of them actually do major acquisitions, large acquisitions, and now they are talking to smaller players, niche players on strategic tie-ups where they do not need to invest money. One provides tech, another provides manufacturing. So, are we seeing some kind of development there given we have got a large manufacturing facility in India as well as we have got an expanded one in Europe one and probably a tolling one in the U.S. also?

Kedar Vaze: Yes. So we have our manufacturing footprint. We do our own manufacturing for products that we develop. So, we are sort of doing the full service. I believe there are some business models which are taking only development and getting it produced from kind of a third party. All of these are models which are sort of, I would say, more short term. Unless you put your own manufacturing capacity, you cannot really scale up the business.

Henil Bagadia: Sir, actually to be specific, so Givaudan had actually done a strategic tie-up with one player, which has got very good tech on the biotech side. So probably we have some tech and probably some large F&F player where Givaudan actually did the exclusive marketing and they will do the exclusive manufacturing.

Kedar Vaze: Yes. Yes. So, they have acquired technology from Amyris in part of the bankruptcy proceedings, and they have done that. But it is very, very small part of the overall business. So, it is 1 or let's say, one or two ingredients in the whole business.

- Henil Bagadia:** Okay. Sir, also lastly, on the Global Ingredients side, I think so things are fairly moving forward for us. So, we actually denied investing more money into the project, and we were actually looking for any strategic tie-up that could probably come, and we could have some joint manufacturing facility out there. So, is there any progress there because one of our peers has actually been successful in a decent sized order win and the project win in this particular space?
- Kedar Vaze:** Yes. So, we have backward integrated. That project is already executed. We are seeing that benefit of that has come into the Global Ingredients business, which has turned around from a negative EBITDA to a positive EBITDA. This quarter or this half, there is further pressure from China in terms of the costing. But we are still profitable, and we will continue to grow that business.
- Henil Bagadia:** But since all these players, large players are shutting down facilities in U.S. or Europe and moving a lot of products to low-cost geographies, any traction, any large inquiry that we are seeing? I actually wanted to get that kind.
- Kedar Vaze:** Yes. So, we do have business with the bigger companies or tolling or relocation business, which comes our way. But the Global Ingredient is not counting in this business. That is part of our normal segments. There are opportunities definitely from what is happening in the chemical space. So we will also look at some of them. But at the moment, I have nothing to announce.
- Henil Bagadia:** Sir, lastly, just on the RFQ tender side. So, we got a decent sized win of about \$10 million contract per annum. So, are there any more such decent-sized RFQs in tender? And also, there was one Flavour tender that we had actually filed with one of the FMCG. So, any updates out there?
- Kedar Vaze:** So, Flavour tender, it is approved. There are some initial trial orders which have gone. We wait for that as things materialize. It is going to take a long time on the Flavours. It takes multi years of sort of growing the business. On the global contract, yes, we have more than \$10 million assured business for this year, and we are continuing to submit and make, let is say, make inroads in newer projects. But there is no specific adoption. So, while we have won some things, they have not yet launched, or they are in the process of being launched.
- Moderator:** Thank you. Next question is from the line of Debanjana Chatterjee from Spark Capital Advisors. Please go ahead.
- Debanjana C:** Yes, hi. Thanks for taking my question. Yes. So, I want to just confirm on a few dots that I must have missed. So, you are planning for revenue growth, what is the revenue growth figure that you are planning on a CAGR basis between FY '26 to FY '28 on revenue and EBITDA line?

- Kedar Vaze:** So, on the revenue side about 15% growth year-on-year. That is our CAGR expectation over the next 3 to 4 years. On the EBITDA level, I think we are quite low at 11%, 12% at the moment, and it should progressively catch up and be more close to the 18% EBITDA level, which we expect it to run.
- Debanjana C:** So 18% is your EBITDA margins that you are talking about and EBITDA is like 11% to 12% Y-o-Y growth that you are projecting, right?
- Kedar Vaze:** No. The Y-o-Y growth will be higher than that because we see basically if you do 15% CAGR growth with the operating leverage and the factory reinstatement of the factory and operations, we will see faster growth on the EBITDA.
- Debanjana C:** Right. So 15% will be like what? It will be the CAGR growth, right, sir, over the 3 to 4 years EBITDA.
- Kedar Vaze:** Yes.
- Debanjana C:** Okay. There is a fundamental question. Actually, I am new to the company. So what are the creative development centers exactly? And what do they really do? I mean, are they into manufacturing or what is that? How did you come up with this idea of setting up creative development centers? If you can please give us a fair explanation.
- Kedar Vaze:** Yes, yes. Creative development center is basically a business development center, which includes sales, marketing and the product development. So, every new geography, every new category we enter, we develop the products for that market. So, it is a basic business development work that happens in our industry. We have 6 creative centers in Europe and Asia. We have added 3 creative centers in the last year in new geographies, U.K., U.S.A. and Germany.
- Debanjana C:** Okay. All right. In the call to one of the participants, you mentioned that this Rs. 32 crore will be a new cost structure. So, are you planning to like report it under the other expenses column in the coming years of your annual report? Or how are you going to plan it?
- Kedar Vaze:** No. So, the cost of the creation center and new development for 2 to 3 years, there is no substantial revenue behind it. So only after 3 or 4 years, the cost and revenue start to be comparable. So, in that period, our EBITDA will be muted and this creation centers start to deliver.
- Debanjana C:** Can you please give us about your collectibles? Is your working capital improving? Will it be below 80 days or how would it be for the coming 1 to 2 quarters?
- Kedar Vaze:** So again, working capital is on the higher side at the moment, largely in inventory. We are keeping inventory in multiple locations that adds to the

overall inventory to sales ratio. As the new factory facilities kind of start operating, the inventories will reduce as a percentage of sales.

Debanjana C: So, can we like assume that it should be around 70, 75 days on an average going forward around FY '27, '28?

Kedar Vaze: The current inventory levels are around 145 to 150 days of sales that should come down to 130 days.

Moderator: Thank you. I request all the participants, please restrict to two questions per participant and rejoin the queue for a follow-up question. Next question is from the line of Bharat Sheth from Quest Investment Advisors. Please go ahead.

Bharat Sheth: Hi, good evening, Kedar. And thanks for the opportunity. Kedar, actually what I understand that you spoke on the softness in the Europe business. So Q1 also, there was a degrowth in euro terms, whereas I believe there is also a degrowth in Q2, where the EBITDA margin for '24, '25 was reported EBITDA margin was around 22%. So how do we see that is pulling down? And when do we expect that Europe business will start again, I mean, reviving? Again, other side, we are doing a brownfield expansion.

Kedar Vaze: Yes. So Q2 is already better than Q1 in terms of revenue. And gross margin is the same raw material effect. So, Q2 is better than Q1, although the EBITDA in Europe specifically is kind of combination of product export to North Africa and Middle East. That ratio is higher in this quarter. But these are all seasonalities, nothing specific. Gross margin is improving across the board as raw material prices are coming down.

Bharat Sheth: Okay. And second thing, I mean, on again, gross margin, we were expecting that mix of price increase that we took as well as, I mean, raw material softness that we are seeing. But I mean, still, we are talking of only 1.5% kind of improvement, whereas I mean, vis-a-vis what we were expecting to normalize, say, around 43%, 44% for FY '26 second half.

Kedar Vaze: Yes. So, we are already at 42.4% for the first half of this year, and we will further improve by 1% in the second half.

Bharat Sheth: Okay. And last question on this insurance, what is the status of the factory that got a fire. We were expecting also to restart this in somewhere in second half of the FY '26. Any colour on that?

Kedar Vaze: So, there are 2 factories which are being built. The first factory, which is a new greenfield one, which is coming up. It is on schedule. Ideally first quarter calendar, so fourth quarter of this financial, it will start operations. Full-fledged

operations will take another quarter for all the things to be smoothly running there. So, it will start in the fourth quarter of this year.

The Vashivali site has been cleaned, demolished, all the work has started there, and we expect this work to also be completed in terms of the insurance before end of March. The factory will not be operational because we will then sort of use the new factory first and this factory will become operational 6 to 9 months thereafter. So, second half '27, we will have the second factory and already first half or last quarter of this year, we will have the first factory up and running.

Moderator: Thank you very much. Next question is from the line of Sandip Sabharwal from Asksandipsabharwal.com. Please go ahead.

Sandip Sabharwal: Kedar ji, I have been attending your conference call last 4, 5 years. So, there have been many occasions where you have talked of improved margins and some raw material goes up or some event happens, etcetera, and the margins do not move up. And then there have been several times you have talked of reducing debt, but then debt has also trended up. And there is so much volatility on a quarterly basis, like this quarter results suddenly were down substantially over last quarter. So how does a minority investor invest in your kind of company where there is so much unpredictability?

Kedar Vaze: Yes. I am stumped by the question. I understand that there have been events which have happened, some are macro events which have affected everyone, some have affected specifically to our business. The only good way to look at it is on the longer-term kind of trailing 12 months or 18 months comparison because quarter-on-quarter, things will look very volatile.

Sandip Sabharwal: And this Rs. 7 crore additional insurance money, which is getting paid out, now this will be paid only this year or it is a regular thing now?

Kedar Vaze: As a result of the incident, they have charged us an additional surcharge, which will be Rs. 14 crore for this year. We will negotiate it as the new factory comes online. So, this is I expect to be there for 1 or 2 years maximum. It depends on the final negotiation with the insurance company.

Sandip Sabharwal: Now you talk of improving margins when the new factory comes up. Initially the new factory starts, then will not there be another phenomena because of start-up costs, etcetera, the margins could actually take a beating initially before improving. So, when you talk of improved margins in the second half and going into 2027, are you very sure that it will correlate with your new factory starting?

Kedar Vaze: Yes. So, point is well taken. We will have 1 or 2 months of start-up and relocation. So, there will be an overlap cost in that sense. But we have the

opportunity with the 2 factories to start to reduce from 1 factory and start to move in a phased manner.

Sandip Sabharwal: But with all of this also, you are sure about whatever you are seeing on the second half margins.

Kedar Vaze: That is correct.

Moderator: Thank you. Next question is from the line of Madhav Marda from Fidelity Investments. Please go ahead.

Madhav Marda: Did you a sort of guide for EBITDA margins for FY '26, given where we are on the first half, could you give a sense in terms of how the full year is looking?

Kedar Vaze: I will put out the latest estimate. I have not given any guidance, but it is basically improving from the 11%, 12% to 14%, 15% and upwards.

Madhav Marda: No, sir, by when do we expect to be at 14%, 15%?

Kedar Vaze: I mean, effectively, second half this year, we will start to see improvement versus the first half.

Madhav Marda: So, you think 2H margins will be 14%, 15% or that takes longer to achieve? That is what I was trying to understand.

Kedar Vaze: Second half margins will be 14%, 15%, probably quarter 4 more than quarter 3. And then a year after, we can look at even more improvements.

Madhav Marda: Okay. So, the sort of the margin pressure that we have seen in quarter 2, a lot seems like a lot of it is driven by buildup in cost, right, at the employee and the SG&A. Could you give some sense in terms of what are these costs? I think it is probably from the creative development centers. So, could you give a breakup?

Kedar Vaze: Yes. So, the Rs. 32 crore of additional new initiative cost vis-a-vis last year to this year.

Madhav Marda: Okay. So, any reason that we had to go so aggressive at these costs at the cost of our margins? Like do we see like very large scale up in revenue from these initiatives because we have a lot of cost for some reason, right?

Kedar Vaze: Yes, we have decided to enter new geographies quite aggressively last year, and this was all decisions and actions which have been taken before the fire incident. So, we have continued the action. We have not reduced our expansion plan on that basis. So, we are seeing at the moment kind of a double whammy in the sense that the expenses for the longer-term strategy will continue to go

- ahead. We still have some challenges in our current business on the operations and kind of free cash flow, which should even out in this year, first half next year.
- Madhav Marda:** And this Rs. 32 crore, how is it split across various geographies like Europe, U.S. and other markets?
- Kedar Vaze:** Substantial part of it is in Europe. I would say U.S. is 1/3 and Europe is 2/3 ballpark. I do not have the exact number, but I can send it out.
- Madhav Marda:** And this is all employee cost, right? Like all of this price is employee cost?
- Kedar Vaze:** Mostly employee cost plus lease, rentals, things like this. Opex and employee, mostly employee, 70% should be employee cost.
- Madhav Marda:** Okay. And the investment that you are making in U.S., how much time does it take for us to generate business there?
- Kedar Vaze:** We have started generating business, but for it to be meaningful, it will take 2, 3 years of time. First 2 or 3 years, it is more or less, I would say, CWIP. It is not sensible to look at it. Second or third year, we will break even, and it will start generating normal business sense.
- Madhav Marda:** So just one question. Could this product been phased over like 1 or 2 years and we could have done it in steps rather than front-ending all the spends right now? Like was it very pressing to kind of front-end so much expense right away?
- Kedar Vaze:** No, we actually did this in readiness with the global account's next cycle. So, we are ready with the geographies where we are not present before the next cycle comes in. So that is the main motivation of having done that. Yes, if we had, the hindsight is different and without the fire incident, we would not be talking about it with so much attention. I think with the fire incident, obviously, our cash flow and the investment appetite or investment could be more staggered, but that is the situation we are in today.
- At the time when we decided it, it was following the global account and going into the biggest markets for our innovation pipeline. But I do not see that it is a wrong decision. But in the current environment, we have to monitor it carefully and look at ensuring that the deliverables are faster than over a longer period.
- Madhav Marda:** So just last question again on the margins only. I think we in the past indicated we want to get to the 18% plus EBITDA margin. How many years do you think that is possible to get done?
- Kedar Vaze:** I think 2 to 3 years.

Moderator: Thank you. Next question is from the line of Manoj Bagadia from Equicorp Partners LLC. Please go ahead.

Manoj Bagadia: Yes. Kedar, I had a broader question, which is somewhat related to the previous participant you asked, right? I mean that was somewhat similar to the calibrated growth what you could have. So, if I go by the numbers what you have, you would have about Rs. 68 crore of new initiative investments this year and next year. And if we assume it does not give much return for next 2 to 3 years, that means we are talking about Rs. 150 crore to Rs. 200 crore kind of new investment in new initiatives.

Considering where we are in terms of the recent fire incident and the way we are with the margins what we have in the business, it seems the risks are very high in the business at this time. And I mean, God forbid if some macro event happens, I think there is a significant risk. So, what are we trying to do to reduce the risk exposure what we have? I mean what is the strategy?

Kedar Vaze: Yes. So, I mean, this is again the point of decision and the aftermath of the fire. So, we are now very careful on not initiating anything new from a capex or additional opex point of view. This quarter, we would be at the maximum point of all the new initiatives and opex. So, we will track from here on.

I would say that is important for us to monitor it carefully month-on-month as what is happening because the investments are the right investments. We need to ensure that we get the returns on them earlier and monitor them very carefully. That is all I can say.

Is it appropriate that we do all of this at one go? As I mentioned to the earlier question, we have decided to do this in preparation and in anticipation of the global accounts engagement in various geographies, including the U.S. and Europe. So, we have taken this stance that we will be ready in the 2, 3 years' time. Unfortunately, we had the fire incident in midst of this 2-year or 1-year implementation. So, we will be careful. We very much understand the risk, and we understand the gravity of the situation. And as soon as the insurance money and the new factory comes on board, things will look much better.

Manoj Bagadia: In the meantime, can you do something different than what we might have done? Like something what we have the contract manufacturing business in Europe, something similar here or something else or maybe try and divide the risk with maybe potential investors in sharing some potential returns with somebody else. Is there some way we can derisk? I mean, my only thing is I am just thinking about potential risk factor as of now.

Kedar Vaze: Yes. So, I will take that feedback. Thank you for this comment, and we can evaluate if there are some proposals on this kind.

- Manoj Bagadia:** And is there any initiatives or a possibility where you can reduce the cost because the new factory will start probably by March, right?
- Kedar Vaze:** I just want to put a kind of context to this. We are talking about Rs. 60 crore of investment, which is in a way discretionary. If we decide to exit U.S., exit the European market in a certain way, these are of nature where we have decision depending on the output and performance. So, we need to give it 2, 3 years of proper running, but it is not in the form of a permanent cost structure on our current business.
- Manoj Bagadia:** Yes, because the issue was, like somebody else, Kedar, we are almost at the IPO price. I mean if you see the results since the time of IPO, unfortunate, so many events happened in between, right? And that is why we do not have control over so many outside events. And I hope if something happens, then we try and reduce the risk. I am not sure. But hopefully, over the next couple of quarters, we will see some steps from us which can try and derisk and maybe improve on the top line.
- Kedar Vaze:** Sure. No top line has been improving. We will continue to do it. I think the management of the cost and how many new things we can do at one go, we will need to control that, and we will definitely bring that in line with the requirements on return on investment.
- Manoj Bagadia:** So hopefully, we will not have any more further financial major investments or anything else for at least next 1, 1.5, 2 years as well?
- Kedar Vaze:** That is correct.
- Manoj Bagadia:** Hope financially we become much stronger over the next couple of months. Thanks a lot Kedar. Appreciate the opportunity.
- Kedar Vaze:** Thank you.
- Moderator:** Thank you very much. Ladies and gentlemen, we will take that as the last question. I will now 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. I take some of the suggestions from the participants and look at detailing the financial performance improvements over the next 18, 24 months. Apart from that, should you need any further clarifications 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 to join us on this call.



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

-End-

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