



S.H. Kelkar & Company Limited

Q3 & 9M FY2016 Earnings Conference Call Transcript

February 9, 2016

Moderator Ladies and Gentlemen, Good day and Welcome to the S.H. Kelkar & Company Limited Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Anoop Poojari of 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's Q3 and Nine Months FY2016 Earnings Conference Call. We have with us Mr. Kedar Vaze – Whole time Director and CEO; Mr. B Ramkrishnan – Director, (Strategy); Mr. Tapas Majumdar – CFO and Mr. Shrikant Mate – VP (Strategy) 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 Mr. Kedar Vaze to make his opening remarks.

Kedar Vaze: Good evening everyone. I warmly welcome you all including our public shareholders to S.H. Kelkar's earnings conference call to discuss the operating and financial performance for the third quarter and nine months ended December 31st, 2015.

As this is our first time we are hosting our conference call post our IPO, I would like to start by sharing my thoughts on the business as well as take you through the key developments and financial highlights for the period under review.

Let me begin by giving you a brief introduction on the company. We are the largest Indian origin fragrance and flavor Company in India and have established a long standing reputation over 90 years of operations. Over the years the Company has developed a product portfolio of over 9,700 fragrances, ingredients and flavor products and a large library of product formulations that are supplied to clients in personal care, pharmaceuticals and F&B industry. Our fragrance products and ingredients are used as raw material in personal wash, fabric care, skin and hair care, fine fragrances and household products, whereas our flavor products are

used as raw material by producer of baked goods, dairy products, beverages, pharmaceuticals and other food industry applications.

According to Nielsen market study in March 2015, we commanded 21% market share in the fragrances market and a 2% market share in the flavors market in India. We have a strong and dedicated research team of 18 scientists operating in our facilities in Mumbai and Barneveld and are fully focused on R&D as it supports all our processes including chemistry, efficiency, innovation and ability to undertake complex responsibilities while offering cost effective quality products. Research involves synthesis of new molecules and the development takes care of improving existing products and creating new fragrances & flavours. Our research team has developed 12 molecules over the last three years of which we have filed patents for three. I am also happy to share here that one of our molecules has now been granted a patent in the US patent office as on end of last year. We are now looking to commercialize and look at the commercial potential of this molecule going forward.

We also have a team of 12 perfumers, 2 flavorist, evaluators and application executives at our five Creation and Development Centers in Mumbai, Bangalore, the Netherlands and Indonesia. This is used for developing our fragrance and flavor products which are blend of ingredients and are created our by perfumers and flavorists using proprietary formulas. Fragrances and flavors are considered to be one of the most important factor for consumers in deciding whether to repurchase a product and thereby making them one of the key components in FMCG group. We are focused on our creative and consumer centric research with our R&D and creation in collaboration with our customers to understand customer preferences and offer innovative products and solutions.

In financial year 2015, we have developed over 500 new fragrances and flavor compounds which we sold commercially. We believe innovation from our research and development creation activities is a basic pre-requisite for sustainable success of the Company. We had invested 26 crores or 3.1% of our total revenue on research and development in FY15 and we remain committed towards our investments in R&D. We also have a strong sales and marketing network in India and overseas which complements our creation and development. We export fragrances to 52 countries and flavor products to 15 countries with offices in Singapore, Indonesia, Thailand and Netherlands. The sales & marketing team consists of 84 personnel who operate from nine centers located in India and overseas.

Coming to our customers, we believe one of our key strengths is our diversified and large client base over 4,100 customers including leading national and multinational FMCG companies, blenders of fragrances and flavors and other fragrance flavor producers. We have over 3,700 customers for our fragrance and flavor ingredients and over 400 customers for our flavored products. In addition, our branded small pack business includes sale of our fragrance products in pack sizes ranging from 25 grams to 500 grams and several 100 traders and resellers spread this on a country and region basis. We aim to introduce new products in our branded small packs based on our experience in this category and our leadership market position in this segment. Such diversified and comprehensive product portfolio significantly reduces any risks with the dependence on a particular product or customer.

I would briefly take you through the financial performance. At the outset, I would like to state that for our nature of business we believe that the results are best monitored on a year-to-date basis and not quarterly, so I will take you through our nine months FY16 performance. Total income improved by 10% to Rs.661 crores from Rs.600 crores in the corresponding period last year. The constant currency

growth was higher at 13%, however fragrance division reported lower rupee realization owing to the depreciating Euro. Gross Revenues from our fragrance segment stood at Rs.690 crores, year-on-year growth of 11% led by healthy performance in the domestic and overseas market. Our flavor division recorded a growth of 3% to Rs.46 crores. Although domestic business expanded by 12% in flavor, our exports are adversely affected owing to political and economic scenario largely in the Middle East.

EBITDA enhanced by 19% to Rs. 113 crores and margins improved by 131 bps to 17.1% primarily owing to improved realizations witnessed in the overseas market and better cost control. The PBT before extraordinary items improved by 27% to Rs. 78 crores and after extraordinary items increased by 11% to Rs. 79 crores and extraordinary income in the previous nine months' period included a onetime income of Rs.10 crores from sale of real-estate property.

So PAT was up by 9% to Rs.54 crores, however net operating profit after tax before sale of property and prior period tax credit increased by 36% to Rs.53 crores. We have also significantly strengthened our balance sheet position post our successful IPO in November 2015 where a proportion of fresh share issue resulted in an inflow of Rs.210 crores. With this, we are now a debt free Company at the net level and have sufficient funds to pursue our growth strategy. We have built in enough manufacturing capacity for future growth with investments made in the past. Given the steady nature of our business we look forward to generating notable free cash flows going forward.

To conclude, our endeavor is to deliver steady growth and track the FMCG growth rates by focusing on increasing our market share in India as well as other emerging markets in Asia, Africa and Middle East. Innovation has been and will be an important success driver for us and we will continue to strengthen our business through introduction of new products which augment our customer base in the coming years. We would like to benchmark our R&D practices with the best in the industry. We believe our leadership position in the niche sector, strong balance sheet and no major CAPEX requirements should enable us to create substantial value for all stakeholders in the future.

This brings me to the end of the discussion. Thank you for your time and we look forward to building strong communication channels with you and regularly connect through such forums with a view to encouraging transparency and openness. I would request to open the forum for questions or suggestions that you may have.

- Moderator:** Thank you very much sir. Ladies and Gentlemen, we will now begin with the question-and-answer session. Our first question is from the line of Vaibhav Bid from Motilal Oswal Asset Management. Please go ahead.
- Vaibhav Bid:** Sir, in the fragrance division what was the growth in this quarter?
- Kedar Vaze:** Last year same quarter we did sales of Rs. 203 crores and this year December ended 2015 we did a sales of Rs. 241.5 crores, approximately 19% growth.
- Vaibhav Bid:** And sir could you give us export and domestic split in the fragrance business?
- Kedar Vaze:** The domestic and overseas revenue was split as 63% domestic and 37% overseas, in the fragrance division.
- Vaibhav Bid:** And sir in the export markets in which countries do we supply, which is our major exposure?

- Kedar Vaze:** So export market, we are supplying out of Europe into global markets in America, Europe and Rest of the World and through India to Middle East, Southeast Asia and South Asia including Sri Lanka and Bangladesh.
- Vaibhav Bid:** But do we have exposure to any major market like US?
- Kedar Vaze:** Within our export, half the market is between Europe and America and the remaining half of the market is Middle East, Africa and Southeast Asia and Indian sub-continent.
- Vaibhav Bid:** And sir what would be our constant currency growth for the fragrance segment?
- Kedar Vaze:** Overall we have done 13% constant currency growth on a nine months basis.
- Vaibhav Bid:** And sir this quarter?
- Kedar Vaze:** Year-on-year this quarter we did 17.2%.
- Vaibhav Bid:** And sir could you give us your capacity currently and what is the utilization?
- Kedar Vaze:** Our capacity in fragrances is in excess of 25,000 tons and would also depend on the product mix and number of batches, but we are currently operating at less than 40% of the capacity.
- Vaibhav Bid:** And sir what is the scope for new products, what could be next two three years span out to be? What could be our strategy to increase the utilization going forward in the next two, three years, I mean do we have a plan of action or is it dependent on our principle customers?
- Kedar Vaze:** So we continue to grow faster than the FMCG market and continue to grow our business. In terms of our investment philosophy, we have always been looking at a long-term investment horizon, it is not an immediate capacity filling but we continue to look that we need to invest very few times in a cycle of 15 to 20 years. So we are done with our capex cycle, we have completed almost Rs. 180 crores investment between 2007 and 2015.
- Vaibhav Bid:** And sir on the customers, the top five customers how much do they form of our revenues?
- Kedar Vaze:** Top five customers are less than 20% of our revenue.
- Vaibhav Bid:** And sir one last question, what would be the raw material for the fragrance and from where do we source it?
- Kedar Vaze:** Raw material for fragrance and flavors comes from four different sources, one is obviously the 25% roughly by value comes from petroleum derivatives, 25% of the value comes from products which we call terpentine or gum terpentine, it is a bi-product out of wood and resin processing. So paper industry and wood industry bi-product is used as a feedstock for aroma ingredient and therefore in the end in fragrances and flavor. Remaining 50% naturals consisting of roughly 25% of citrus oils such as orange, lemon and so on and so forth and the remaining 25% by value is natural products which are multiple small products, herbs, spices, menthol, mint grown around the world and they are specifically grown as cash crops for the industry and we buy them from sources across the world.

- Vaibhav Bid:** Sir are we importing any of the raw materials currently?
- Kedar Vaze:** Roughly 50% of our purchase is imports.
- Vaibhav Bid:** And sir from which countries, any specific destination?
- Kedar Vaze:** We import from almost 100 suppliers across the world, almost 50 countries.
- Moderator:** Thank you. Our next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.
- Abneesh Roy:** Sir, my first question is in terms of margins, if I see in the last five years you have also seen three times 19% and currently it is only 17%, so if you could take us through why the margin profile is not improving given the current overall deflationary situation in most raw materials and what are the key raw materials? And is it a cost plus model in your case, so your margins will be in a very tight band, if that is the case then why it is not at 19%?
- Kedar Vaze:** I think there are two parts of this, one is that as the declining costs come into effect we have a stock and inventory whereby we hedge and we have long lead times on the inventory. So we have large inventory and there will be a decline in the cost going forward which will help us improve the margins. Part of the margin is not reflected as the FIFO accounting we are still not getting the benefit of lower cost.
- Abneesh Roy:** Sir, could you answer which are the key raw materials and is it a cost plus model?
- Kedar Vaze:** No, it is not a cost plus model, we have our own recipes, we make a final product and we offer it to the customer at the customer perceived value and end value. The products normally are not more than 2-3% of the cost of the FMCG products, so it is not really a cost driver, it is a huge value driver for differentiating their product. So it is not a cost plus model, we have our own R&D and our own pricing model.
- Abneesh Roy:** And key raw materials, how much is the exposure to crude related raw materials/?
- Kedar Vaze:** About 25% by value.
- Abneesh Roy:** And key raw materials you want to divulge, or it is too many...
- Kedar Vaze:** So there are 1200 materials which are being used, so it is a very wide variety of products which have been used.
- Abneesh Roy:** Sir my second question is on this acquisition HTT Mumbai, so if you could talk about the valuation part, Rs. 22 crores sales and you have bought it for 29 crores, so is there any debt and what is the additional capability in this, is it customer or is it new technology, is it distribution, what is it, why have you bought this?
- Kedar Vaze:** So, by acquiring this business we will almost double our flavor revenue in the country, we will also have access to certain large customer in bakery and confectionary industry and it opens doors for that segment for our growth in flavors.
- Abneesh Roy:** Sir how will you double your revenues, nine months you have done Rs. 46 crores?
- Kedar Vaze:** Domestic flavor.

- Abneesh Roy:** Domestic flavors will double, okay. And last few years, how many acquisitions you have done sir?
- Kedar Vaze:** So we have done two acquisitions in the past five years.
- Moderator:** Thank you. Our next question is from the line of Chanchal Khandelwal from Birla Sun Life Mutual Fund. Please go ahead.
- Chanchal Khandelwal:** So just firstly on the volatility, Q2 numbers looks like it is lower than the expectation, I know you mentioned we should look at nine months or yearly numbers but if you can explain us Q2 numbers?
- Kedar Vaze:** Actually if you look at the Q2 domestic fragrances which is the bulk of our revenue, almost half of our revenue is moving between quarter two and quarter three based on the festival seasons. So there is some demand shift between months of August, September, October based on the calendar. So this year it is a delayed festival season therefore some of the sales are moving into the third quarter, so we need to look at Q2, Q3 in combination with previous years, so there is a 10% plus growth in domestic fragrances and overall 13% growth.
- Chanchal Khandelwal:** Second thing on the margin front, this was asked by the previous speaker, given that the crude has fallen so much, do you see that your gross margin will expand with a lag, you will get some benefit somewhere in the gross profit margin?
- Kedar Vaze:** So we are definitely expecting to get some gain in the gross margin and we have already seen some improvement. We also have on the other side certain part of our fragrance businesses which is doing business in euro terms where we see a dollar input and a euro sales and therefore there is some margin decline in the last year. So you will see the full effect of the improvement in margins once the euro, dollar stabilizes and we see a three to six months of stable cost.
- Chanchal Khandelwal:** Gross profit growth is just 10% which is in line with your top-line growth, so how does euro, dollar impact you, so you buy in dollar...?
- Kedar Vaze:** We buy in dollar and we sell in euro, so that European part has actually had a margin squeeze.
- Chanchal Khandelwal:** And also why has the staff cost gone down if I look at on a nine months basis, there is a very little growth in other expenditure.
- Kedar Vaze:** On the staff cost we also have certain R&D which is done in Europe, so there have got a benefit of the euro cost in conversion to rupee terms.
- Chanchal Khandelwal:** Other expenditure?
- Kedar Vaze:** I think we have been able to control our other expenditure as revenues are growing, we have not spent additional costs on that incremental revenue. We are bringing in operating leverage.
- Chanchal Khandelwal:** And lastly, during the IPO days there were some Loreal order which you were supposed to get from Indonesia, what is the status of that if you could tell us?
- Kedar Vaze:** At any time, There are various products which are under test with various companies like Loreal, I am not at liberty to disclose any specific detail but it is in its stage of development.

Chanchal Khandelwal: So the order is not acquired, so we are still not approved you mean to say, that is still in the process?

Kedar Vaze: It is in the process, it is their timelines, it is beyond their development so it is in the company's timelines.

Chanchal Khandelwal: Just lastly if I may squeeze, the acquisition which you have done have you acquired some plant or is it only the business? I think we are paying Rs. 27 crores, right, so what is this big payment for, this payment is for brand or business?

Kedar Vaze: This is for business and intellectual property of the formulation and transfer of that business to us, including client business and purchase orders and contract.

Chanchal Khandelwal: No manufacturing is coming?

Kedar Vaze: So there is a manufacturing facility which is coming with it, but we have our own manufacturing capacity to take care of it. So it will be surplus and we will dispose it eventually.

Chanchal Khandelwal: So how big is this land, is it big enough, substantial enough to know or is it...?

Kedar Vaze: It is very small.

Moderator: Thank you. Our next question is from the line of Manoj Menon from Deutsche Bank. Please go ahead.

Manoj Menon: Just one question on the pipeline and the outlook, so basically when you talk to the FMCG companies, two things, one, what is the outlook which you are getting on the demand growth, what you are seeing and which eventually obviously percolates down to you? And secondly, how the innovation pipeline looks for FMCG as an industry that is relative to last couple of years when you look at the next couple of years, because these are the two variables if I understand correctly which ultimately impacts your revenues.

Kedar Vaze: So let me put it in two parts, one is that on a total basis yes FMCG business is directly our customer, however when we talk about FMCG outlook and the information, we are only really hearing from the larger FMCG companies in the region in India, in the emerging market, Asia, Africa. There are host of smaller companies which are also our clients. So I think we also have a natural hedge or an additional plus advantage because we have companies which are much smaller or regional brands which are doing well in different, so there are different brands which grow at a faster rate than the overall FMCG growth rate. So we continue to grow at faster than total FMCG growth rates.

Manoj Menon: So you are essentially alluding to the fact that the smaller companies are outperforming and then to that extent you are also gaining, understood that part. Any particular segments which you are seeing even within FMCG which you think you should be focusing more on where you think there is a higher opportunity in the next one or two years, depending on the growth rates what you are seeing.

Kedar Vaze: No, I think across the board the FMCG companies are going through a transition phase, variety of FMCG players have their own strategy based on where they are on the cycle of product development and we have different wings which work with the different companies, so some which are large companies have a different strategy, some are talking about premiumization, some are coming with mass

market products and we are positioned to address the needs of each one of them in their specialized R&D innovation for them.

Moderator: Thank you. Our next question is from the line of Gokul Maheshwari from Allard Partners. Please go ahead.

Gokul Maheshwari: Sir if you could split up your fragrance revenue growth for nine months between the aroma ingredients business and the core fragrance business, that would be very helpful.

Kedar Vaze: We are not reporting numbers accordingly; and we do not track the numbers like that because it is integral part of our business.

Gokul Maheshwari: And is there any change in market shares in both the flavors and the fragrance business for the year-to-date numbers?

Kedar Vaze: We do not have any updated report on our market share, but we believe that we are growing faster than the overall industry in both India and overseas.

Gokul Maheshwari: And secondly sir, if I take working capital as a percentage of sales which is basically inventory and debtors and if I net off the creditors, there is still high at around 49% of sales, what is the overall if you can give a view on your strategy on bringing this investment down as a percentage of sales over the next few years?

Tapas Majumdar: Actually inventory, if you look at it, on the basis of number of days' sales, it has actually come down from 160 days last year to 137 days. The debtors in terms of number of days has had some expansion which is from 82 days to 94 days, but this is something which we have been seeing not only in domestic but international and we are at this point of time handling it and we definitely would be able to bring it down.

Gokul Maheshwari: This 137 was the December data?

Tapas Majumdar: December 2015.

Gokul Maheshwari: And there is scope to reduce the 137 down further?

Tapas Majumdar: Yes, of course, at the end of the day this is one of the things that we have been continuously working on and we have a clear plan at this point of time to bring it down further in the next one or two years.

Moderator: Thank you. Our next question is from the line of Yashas Bhat from LKP Securities. Please go ahead.

Yashas Bhat: I wanted to specifically ask about your Cobra brand fragrances, what is the growth strategy along there, because I understand that your company has a unique business per say, so could you just elaborate a little more on the Cobra brand?

Kedar Vaze: 7% to 8% of our revenues is what we call the Branded Small pack or Cobra brand sale, this is a product which are added to or which are sold in shops, roughly we supply directly to around 1800 shops in the country and around 100 outlets in the Middle East, Africa and Southeast Asia and from here they are further sold into other smaller outlets. We basically are able to reach roughly 2 lakh customers a month across entire region from Africa, Middle East all through India to Indonesia. And in this we continue to enjoy the leadership position and grant recognition on

the cobra brand where these shops are selling these products and we continue to invest, continue to make new products and introduce new products year-on-year.

Yashas Bhat: Sir but what is the scope of growth here, would it be considered as a high growth segment or is it a stable demand kind of a scenario?

Kedar Vaze: No, we are growing in double-digits in this segment over the last five years and we continue to grow in that.

Yashas Bhat: Sir, the next question is regarding your raw material costs, we have noticed that there has been a significant fall in your third quarter from around 57% to around 52% QoQ, is it because of the effects of the crude fall or are there any other contributing factors that we should take into consideration when we are estimating these numbers?

Kedar Vaze: No, it is the general trend of declining costs, not only crude but in general.

Yashas Bhat: And on your revenue side, we can see that the share of domestic revenue is increasing, is it something that you are focusing on or what are the drivers over here?

Kedar Vaze: So part of the translation of the European revenue because of the euro decline, those revenues while the volumes are the same the revenues are translated to the lower value. For our sales out of India and on the export are growing at a faster pace than the domestic figure.

Yashas Bhat: And sir with respect to flavor business you had said that there are some political and economic scenarios which are not with us in the Middle East, could you further elaborate on that?

Kedar Vaze: So in terms of what is happening in the region, there was some disruption of supply and we were unable to reach some of the production locations of our customers, subsequently they have restored their production and the sales has resumed to normal.

Yashas Bhat: And in respect of your intersegment revenue, around 10% to 12% is being noticed of total sales, what is exactly the inter segment revenue?

Tapas Majumdar: It is basically inter company.

Yashas Bhat: Inter company with respect to your subsidiary companies?

Tapas Majumdar: Yes.

Yashas Bhat: And sir in terms of net debt you are debt free, but how much debt is still remaining to be paid because it will affect your finance cost, right?

Tapas Majumdar: The debt today is about Rs. 80 crores of which majority is in ECB loans which is long-term loans which we can pay based on the timelines which we have been given and therefore the money is actually kept in fixed deposit in order for us to be able to repay that loan out.

Yashas Bhat: So you would be paying it in accordance with the repayment schedule and not prepaying it, it is what your...?

- Tapas Majumdar:** Not prepay because the ECB loans do not permit us to repay.
- Yashas Bhat:** And with respect to your Hi-Tech acquisition, around Rs. 29 crores, how was this funded, with the IPO proceeds or is there any fresh debt taken for the same?
- Kedar Vaze:** Internal accruals.
- Moderator:** Thank you. Our next question is from the line of Jayant Dongre from ICICI Securities. Please go ahead.
- Jayant Dongre:** Sir my question pertains to your raw material citrus oil which had seen some volatility last year, how is that panning out now? And there has been a substantial gross margin improvement, what can be attributed to this citrus oil volatility?
- Kedar Vaze:** So in terms of citrus oil, the prices of citrus oil and orange in specific have been on the increasing trend in the last year, so they are actually not helping in terms of the gross margin, they are one of the few products within the entire basket which is actually increasing in cost, so there is no advantage from that on a gross margin basis, if any there is some marginal additional cost.
- Jayant Dongre:** Sir a book keeping question, so what were the IPO expenses booked in this quarter?
- Kedar Vaze:** There is nothing. It is separately accounted for in IPO and taken to the balance sheet part of the share reserves, there is no cost of IPO in the P&L.
- Moderator:** Thank you. Our next question is from the line of Vicky Punjabi from JM Financial. Please go ahead.
- Vicky Punjabi:** I just had one question on this Hi-Tech acquisition, what could be the margin profile of this entity?
- Kedar Vaze:** We are still finalizing the due diligence for the end of the year, so we would not be able to put a concrete number, but the margins are in line with the normal flavor industry in India.
- Vicky Punjabi:** And would it be in line with what we are doing right now in the flavor segment?
- Kedar Vaze:** It is in line, I do not have an exact number.
- Moderator:** Thank you. Our next question is from the line of Kunal Nopany from AUM Advisors. Please go ahead.
- Kunal Nopany:** Can you help us understand why your capacity additions tend to be lumpy and with 40% utilization right now when you see the next capacity addition cycle?
- Kedar Vaze:** Typically in our industry, we are looking at a long-term investment over 15 to 20 years, our last capacity expansion was in 1984 and then we built the plant in 2007. Previously, our export unit we built in 1994 and it is still operating. So we really look at a long-term basis on the investments and the incremental cost of additional capacity is not very high in our industry so we tend to get a benefit over four, five years in terms of our growth and opportunity for growth.
- Kunal Nopany:** But there is no technical reason why you would need to put up a very large capacity upfront?

- Kedar Vaze:** No, the incremental cost difference between the capacity and say 75% of the same or 50% of the same is not very high.
- Moderator:** Thank you. Our next question is from the line of Dhaval Shah from Siddhesh Capital. Please go ahead.
- Dhaval Shah:** Sir, I wanted to ask on this, how much inventory does the customers hold for our product, so for example how much would an HUL hold for the fragrance what we supply to them?
- Kedar Vaze:** It depends on the type of customers, the very small customers also operate on a weekly or a daily working capital, the larger customers would operate in typically 15 to 30 days inventory. On rare occasions customers may choose to keep two to three months of inventory based on their seasonality or their product launch or their plans on growth.
- Dhaval Shah:** But on an average out of your total pie majority would be a months' inventory?
- Kedar Vaze:** I would think so.
- Dhaval Shah:** And where was this Rs. 19 crores spent for the first nine months for CAPEX, what is there in the presentation?
- Kedar Vaze:** We have an expansion of our export flavor and fragrances business additional line which was roughly Rs. 10 crores capitalization, that acquisition of warehouse and land of roughly 8 acres which was under a High Court scheme where we had to pay Rs. 7.3 crores additional to have that title cleared.
- Dhaval Shah:** So now for FY17 and for the next three months, so this quarter and FY17 what is your CAPEX plan, apart from you do any other acquisition what is your CAPEX for the organic growth?
- Kedar Vaze:** So our general outline would be to expect around Rs. 14 crores to Rs. 15 crores CAPEX year-on-year as a maintenance CAPEX.
- Dhaval Shah:** And sir, out of your total export markets which regions look very lucrative to you in terms of growth?
- Kedar Vaze:** It is a very difficult question to answer given the volatility, we still believe that emerging markets Indonesia, Southeast Asia, Middle East and Africa offer opportunity for growth and of course India is very well poised for growth.
- Dhaval Shah:** So going ahead, should we expect any acquisition targets in those regions or it will be only in India?
- Kedar Vaze:** We will evaluate if any targets come in as depending on their individual merits.
- Moderator:** Thank you. Our next question is from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.
- Charulata Gaidhani:** My question is, I want to know about how much is the volume growth and price growth during the quarter?
- Kedar Vaze:** So in the nine months ended December 2015 vis-à-vis nine months of last year we did a 9% growth in volume and 1.1% in value price.

- Charulata Gaidhani:** And for this current quarter?
- Kedar Vaze:** I do not have a number separately for the current quarter in terms of volume breakup, but it is around the 10%.
- Charulata Gaidhani:** My second question relates to, you mentioned that one molecule was granted patent from the US patent office, so how do you propose to take this forward?
- Kedar Vaze:** So as part of our R&D in the last seven years we have been looking at different molecules and new molecules and creating or evaluating the fragrance application for these molecules. We had filed for three patents, this is the first of the product patent which was granted in the US patent attorney, the same will be extended to various countries through the PCT Treaty and we hope to patent it in most parts of the world. There is another probably six months to one year of testing for the final application testing in fragrances at which point we will be able to then commercialize this product.
- Charulata Gaidhani:** So you plan to commercialize this in say FY18?
- Kedar Vaze:** 2017-18 this should be available in commercial form.
- Charulata Gaidhani:** Then I also wanted to know how much was the delta in realizations between the domestic market and the overseas market?
- Kedar Vaze:** Practically the same delta, I mean if you look at the operating total business outside India and in India, the margins are similar.
- Moderator:** Thank you. Our next question is from the line of Kishore N from Karvy Stock Broking. Please go ahead.
- Kishore N:** Can I get what is the average tenure of a contract in case of B2B portion like B2B contracts or something?
- Kedar Vaze:** In our industry practice there is normally no contract, it is specific to one product and one brand and there is a continuous partnership between the FMCG company and us as the support to that brand. So we do not enter into any long-term contracts or very few long-term contracts and this is quite normal in the industry and given this we still have more than 90%, 95% of our customers year-on-year the same product and same customers.
- Kishore N:** And when you see the growth rate in FY12 it was 24%, but in FY15 it was 10% only, can you give any reason for decline in growth rate and whether it is in terms of value or volume what is it?
- Kedar Vaze:** So I think FY12 is the first full year when we had European acquisition in terms of growth and some of this 10% I would put in relation to currency adjusted, it is 13% and in the previous years there was some currency advantage, so that 24 would have some amount of currency advantage in that.
- Kishore N:** Can we expect what is the expected growth rate for further years, like FY17 and FY18?
- Kedar Vaze:** This year we are 13%, we see that kind of growth rate continuing forward.
- Kishore N:** Can you give any sales volume details with regards to the business?

-
- Kedar Vaze:** This year we have grown by 9% volume growth over last year.
- Kishore N:** In terms of volumes, means in like how many tons and what is...?
- Kedar Vaze:** No, I do not have any specific number.
- Kishore N:** Can you give maintenance CAPEX?
- Kedar Vaze:** Roughly around Rs. 15 crores.
- Moderator:** Thank you. As there are no further questions from the participants, I would now like to hand over the floor back to the management for their closing comments. Over to you, sir.
- Kedar Vaze:** Thank you all. I hope we have been able to answer your questions satisfactorily and 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 joining us.
- Moderator:** Thank you very much sir. Ladies and Gentlemen, with this we conclude today's conference call. Thank you for joining us. You may now disconnect your lines.

- ENDS -

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.