



Crafting Sensorial Delight

S H Kelkar and Company Limited

Largest Indian-origin Fragrance & Flavour Company

Q3 & 9M FY19 Earnings Presentation

February 6, 2019





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Crafting Sensorial Delight



Q3 & 9M FY19 Results Overview

Management Comment



Commenting on the performance, Mr. Kedar Vaze, Whole Time Director & CEO at SH Kelkar and Company Ltd. said:

"Over the last 3 years, since the listing of our Company, the business has undergone three high-intensity market disruptions which include Demonetization, GST implementation, and the recent raw material shortage event. However, SHK's business model and the financial parameters have held strong, enabling the underlying core business to still report gross margins in the range of 43-45% and EBITDA margins within the range 17-20%.

While we witnessed an uptick in consumer demand in the months of October and November during the quarter, the sales performance in the month of December was far below our expectations. The business delivered subdued performance in the domestic segment, especially in certain categories which witnessed a transitory slow-down due to delays in GST refund leading to uncertainty among certain customers. As things get more streamlined, we anticipate business in this segment to recover. Despite this operating environment, our client base remained intact and we witnessed a healthy pace of new client wins during Q3, so we expect the scenario to normalize going forward.

We continue to focus towards enhancing our operational capabilities and are rationalizing costs across business parameters. We believe, in the longer term, this will help bring in higher business efficiencies, and assist us to bounce back strongly when we see normalization of operating parameters. Simultaneously, we are also focusing on optimizing our Greenfield manufacturing facility at Mahad. On the whole, we are confident of delivering improved results as a revival in macros coupled with our strategic initiatives towards strengthening our product offerings and cost saving measures should help augment business performance from FY 2020 onwards."

Consolidated Summarized P&L Statement

| Particulars (Rs. crore) | Q3 FY19 | Q3 FY18 | Y-o-Y Change (%) | 9M FY19 | 9M FY18 | Y-o-Y Change (%) |
|---|--------------|--------------|------------------|--------------|--------------|------------------|
| Revenues from Operations (Sales excluding Excise & GST) | 254.5 | 281.8 | -10% | 772.6 | 736.5 | 5% |
| Other Operating Income | 0.3 | 0.4 | -25% | 2.1 | 1.2 | 75% |
| Total Operating Income | 254.8 | 282.2 | -10% | 774.7 | 737.7 | 5% |
| Other Income | 6.6 | 1.6 | 313% | 15.9 | 8.5 | 87% |
| Total Income | 261.4 | 283.8 | -8% | 790.6 | 746.2 | 6% |
| Total Expenditure | 216.5 | 225.5 | -4% | 666.6 | 604.9 | 10% |
| • Raw Material expenses | 139.3 | 152.5 | -9% | 434.3 | 389.3 | 12% |
| • Employee benefits expense | 31.2 | 33.1 | -6% | 97.9 | 94.0 | 4% |
| • Other expenses | 46.0 | 39.9 | 15% | 134.4 | 121.6 | 11% |
| EBITDA | 45.0 | 58.2 | -23% | 123.9 | 141.3 | -12% |
| EBITDA Margin (%) | 17% | 21% | -329 bps | 16% | 19% | -326 bps |
| Finance Costs | 4.5 | 0.7 | 532% | 7.9 | 2.4 | 232% |
| Depreciation and Amortization | 8.9 | 5.8 | 52% | 23.2 | 17.4 | 34% |
| Exceptional Items | - | 10.1 | | - | 10.1 | |
| PBT | 31.6 | 41.6 | -24% | 92.9 | 111.5 | -17% |
| Tax expense | 10.3 | 14.4 | -29% | 25.2 | 38.7 | -35% |
| PAT | 21.4 | 27.2 | -21% | 68.9 | 72.9 | -5% |
| PAT Margin (%) | 8% | 10% | -140 bps | 9% | 10% | -105 bps |
| Cash Profit | 30.3 | 33.0 | -8% | 92.1 | 90.2 | 2% |

Key Developments

Healthy progress towards ramping up production at Mahad facility

- The state-of-the-art facility at Mahad manufactures Tonalid and other key raw materials used in the fragrance industry
- The facility, commissioned in September, 2018, is expected to reach optimal utilizations levels over the next few quarters
- Operationalization of this facility to help improve availability of key raw materials, business and cost efficiencies going forward

Promoters hike stake in the Company by purchase of 250,000 shares in January 2019

- The acquisition of shares have been made from own liquidity and reiterate the promoter group's commitment towards the business and confidence in the Company's growth outlook
- The recent pledge of shares by the promoter's has been for meeting transitory liquidity gaps from time to time and no draw down has been made so far

9M FY2019 Financial and Operational Discussions (Y-o-Y)



Revenues from operations stood at Rs. 773 crore as against Rs. 737 crore, higher by 5% YoY - constant currency revenues growth was at 2.3%

- The Company reported a steady revenue growth in 9M FY19. During Q3 FY19, the Company reported a subdued performance owing to a unique set of challenges in the domestic business. Although the Company witnessed an uptick in sales in the months of October and November, sales declined in the month of December, which impacted the overall performance in Q3 FY19, resulting in flat growth in 9M FY19
- Some categories witnessed a transitory slow-down due to delays in GST refund leading to uncertainty among certain customers. As things get more streamlined, the Company anticipates business in these segments to recover going forward
- The International segment saw a healthy pick-up in growth during 9M FY19 - International flavors segment grew at a healthy rate of 21%, while fragrance division marked a steady growth of 7%

9M FY2019 Financial and Operational Discussions (Y-o-Y)



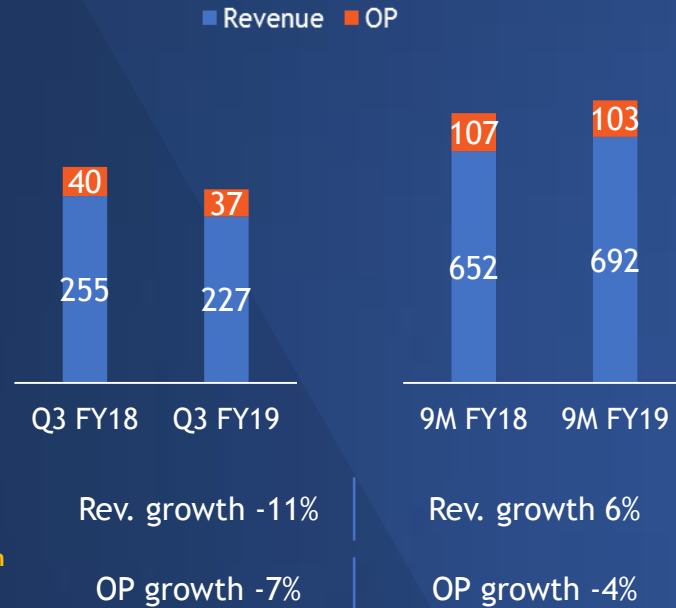
EBITDA stood at Rs. 124 crore; EBITDA margins at 16.0%

- Pricing pressures on key raw materials continued to impact profitability on a YoY basis. The Company has undertaken price increases during the period under review to partially cover the unprecedented raw material inflation. This, combined with the several cost-optimization measures undertaken by SHK over the last several quarters, has resulted in stable gross margins, which improved sequentially during Q3 FY19
- Gross margins in 9M FY19 stood at 44% vs. 47% in 9M FY18
 - The Company expects gross margins to stabilize once the Mahad facility operations fully ramp up
- The employee costs during 9M FY19 increased by 4% YoY owing to a one-time expense of Rs. 5.4 crore incurred towards rationalization of Creative Development Centers (CDC) in Europe

PAT stood at Rs. 69 crore, lower by 5%; EPS at Rs. 4.82

Fragrance Division

Net Revenue & Operating Profit



- Fragrance division delivered a steady growth during the 9M period - domestic revenues grew by 6%, overseas revenues up by 7%
- In Q3 FY19, the Company reported de-growth in domestic revenues owing to considerable sales decline in the month of December
 - The Company expects growth to normalize from Q1 FY20 onwards as operating parameters stabilize along with improving macro factors
- Operating profit margins - 14.8% in 9M FY19 vs 16.5% in 9M FY18; 16.1% in Q3 FY19 vs 15.5% in Q3 FY18

Domestic and Overseas Revenue - 9M FY19



| Y-o-Y Growth (%) | Q3 FY19 | 9M FY19 |
|------------------|---------|---------|
| Domestic | -20 | 6 |
| Overseas | 13 | 7 |
| Total Growth | -11 | 6 |

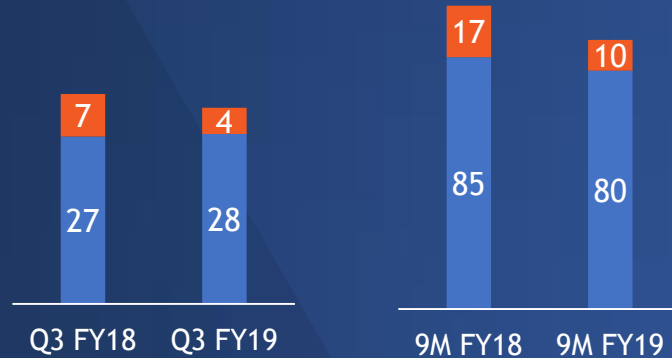
Note: Figures in Rs. Crore unless specified otherwise



Flavour Division

Net Revenue & Operating Profit

■ Revenue ■ OP



Rev. growth 2%

Rev. growth -5%

OP growth -38%

OP growth -40%

- Flavour division reported subdued performance during the period with a decline in domestic revenues
- Overseas segment continued to report healthy sales during Q3 & 9M FY19
- Operating profit was at Rs. 10 crore with margins at 12.9%

Domestic and Overseas Revenue - 9M FY19



| Y-o-Y Growth (%) | Q3 FY19 | 9M FY19 |
|------------------|---------|---------|
| Domestic | -31 | -23 |
| Overseas | 34 | 21 |
| Total Growth | 2 | -5 |

Note: Figures in Rs. Crore unless specified otherwise



Balance Sheet Snapshot - As on December 31, 2018



870

Networth

468

Fixed Assets

85

Cash & Investments

277

Net Debt

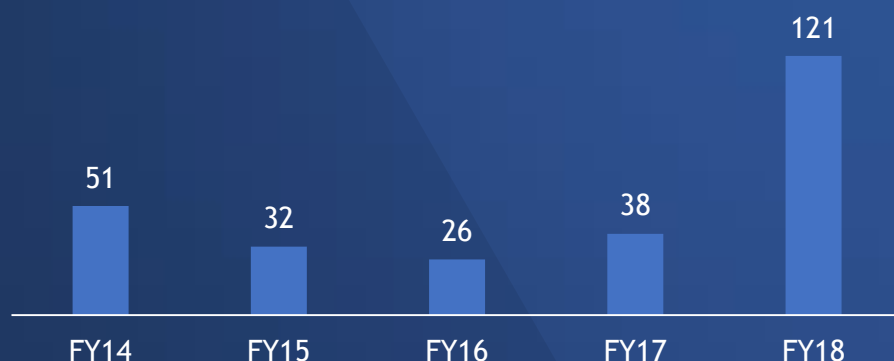
Cash Flow Snapshot



| Particulars (Rs. crore) | FY14 | FY15 | FY16 | FY17 | FY18 | 9M FY19 |
|-------------------------------------|-------|-------|-------|-------|--------|------------|
| Cash flow from Operations | 32.1 | 61.7 | 86.4 | 102.3 | 103.3 | 41.4 |
| Cash flow from investing activities | -63.7 | -17.3 | -22.4 | -96.0 | -220.6 | -101.3 |
| Net | -31.6 | 44.4 | 64.0 | 6.3 | -117.3 | -59.9 |

Note: Cash and cash equivalent includes investments in mutual fund

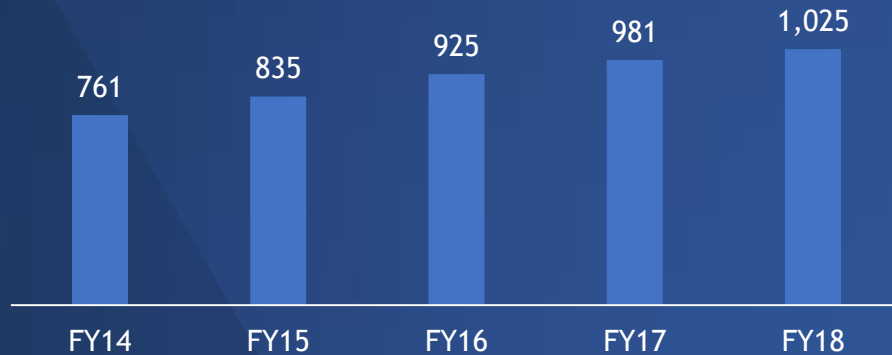
Capex



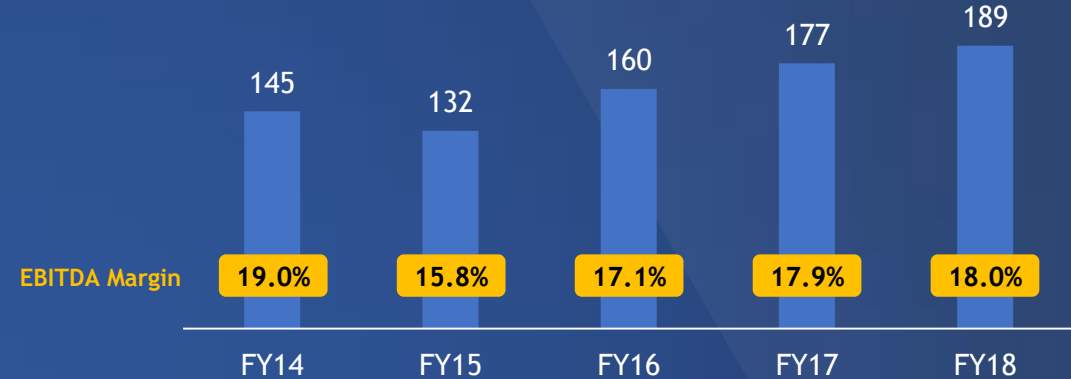
- Low capital intensive business - robust cash flow generation remains a key strength of SHK's business model
- Investments are primarily towards in-organic and other cost saving opportunities - benefits to reflect in cash flows going forward

Robust Historical Financial Trend

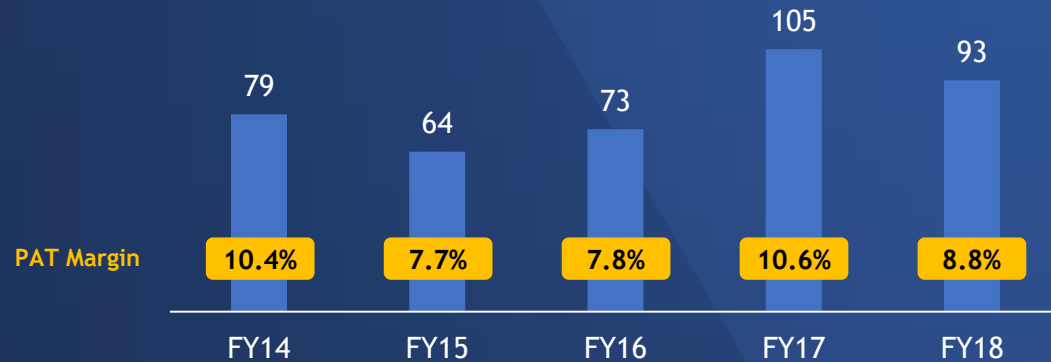
Total Operating Income



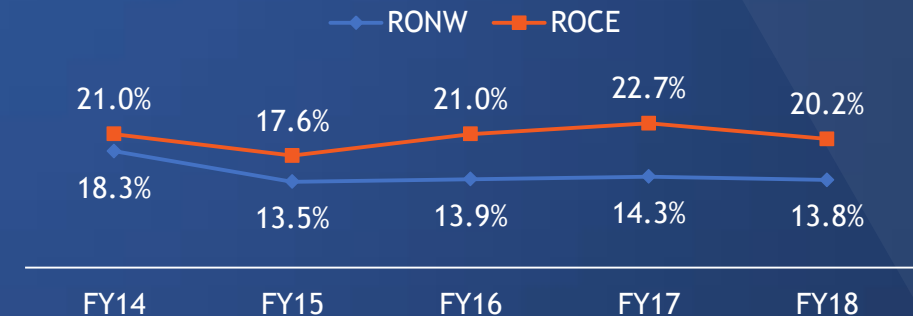
EBITDA



PAT



Return on Net Worth & Return on Capital Employed (%)



Key Financial Ratios



| Particulars (Rs. crore) | FY14 | FY15 | FY16 | FY17 | FY18 |
|--------------------------------|------|------|------|------|------|
| EBITDA margin (%) | 19.0 | 15.8 | 17.1 | 17.9 | 18.0 |
| PAT Margin (%) | 10.4 | 7.7 | 7.8 | 10.6 | 8.8 |
| Debt to Equity | 0.4 | 0.5 | 0.1 | 0.1 | 0.2 |
| Return on Networth (%) | 18.3 | 13.5 | 13.9 | 14.3 | 13.8 |
| Return on Capital Employed (%) | 21.0 | 17.6 | 21.0 | 22.7 | 20.2 |

Note:

1. Return on Networth is calculated as: $PAT / \text{Average Networth}$
2. Return on Capital Employed is calculated as: $EBIT / \text{Average Capital Employed}$
3. All figures till FY15 as per IGAAP;
4. EBITDA adjusted for one-time expense in FY18



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Annexure

Conference Call Details



S H Kelkar and Company Ltd.'s Q3 & 9M FY19 Earnings Conference Call

Time • 2.00 PM IST on Thursday, February 7, 2019

Primary dial-in number • +91 22 6280 1141

• +91 22 7115 8042

India Local access Number • +91 70456 71221

• (Available all over India)

International Toll Free • Hong Kong: 800 964 448

Number • Singapore: 800 101 2045

• UK: 0 808 101 1573

• USA: 1 866 746 2133

About Us



S H Kelkar and Company Limited (SHK) is the largest Indian-origin Fragrance & Flavour Company in India. It has a long standing reputation in the fragrance industry developed in 96 years of experience. Its fragrance products and ingredients are used as a raw material in personal wash, fabric care, skin and hair care, fine fragrances and household products. Its flavor products are used as a raw material by producers of baked goods, dairy products, beverages and pharmaceutical products. The Company offers products under SHK, Cobra and Keva brands.

The Company has a strong and dedicated team of scientists, perfumers, flavourists, evaluators and application executives at its facilities and four creation and development centres in India, The Netherlands, Indonesia and Italy for the development of fragrance and flavour products. The research team has developed 12 molecules over the last three years. The Company has filed 13 patent applications in respect of molecules, systems and processes developed by it, of which 2 have been commercially exploited in deodorant and fine fragrance categories.

Over the years, SHK has developed a vast product portfolio of fragrances and flavor products for the FMCG, personal care, pharmaceutical and food & beverages industry. The Company has a diverse and large client base including leading national and multi-national FMCG companies, blenders of fragrances & flavors and fragrance & flavor producers.

For further information please contact:

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Thank You