



Crafting Sensorial Delight

S H Kelkar and Company Limited

Largest Indian-origin Fragrance & Flavour Company

Q1 FY19 Earnings Presentation

August 9, 2018





Disclaimer

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Q1 FY19 Results Overview

Management Comment



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

"We have had a steady start to the new fiscal witnessing strong revival of demand in our base business and improved consumption pattern in the FMCG industry. Our domestic Fragrance business reported healthy growth of 13% led by steady demand in the domestic FMCG space. Our performance in the overseas Fragrance and Flavours division was impacted by unprecedented supply side constraints and surge in key raw material prices. Under the circumstances, we have focused more on quality of earnings than on growth in our International Fragrance business. This, along with a weaker Rupee, helped our gross margin improve to 44% from 39% Q-o-Q. While the Company has taken measures to mitigate cost pressure through increase in selling price and plans to take further such steps in future as well as undertake cost-saving measures, the pass through of the same to margins is expected to start reflecting in performance over the coming quarters, albeit with a lag."

Consolidated Summarized P&L Statement

Particulars (Rs. crore)	Q1 FY19	Q1 FY18	Y-o-Y Shift
Revenues from Operations (Sales excl. Excise & GST)	236.0	233.9	0.9%
Other Operating Income	0.4	0.4	4.8%
Total Operating Income	236.4	234.3	0.9%
Other Income (incl. Export Incentives)	3.3	5.0	-34.9%
Total Income	239.7	239.4	0.1%
Total Expenditure	203.4	192.9	5.5%
▪ Raw Material expenses	132.2	122.2	8.2%
▪ Employee benefits expense	29.1	30.2	-3.6%
▪ Other expenses	42.2	40.5	4.1%
EBITDA	36.2	46.5	-22.1%
EBITDA margin (%)	15.1%	19.4%	-431 bps
Finance Costs	1.5	0.6	151.2%
Depreciation and Amortization	6.8	5.8	16.5%
Profit before exceptional items and tax	28.0	40.1	-30.2%
Exceptional Items	-	-	
PBT	28.0	40.1	-30.2%
Tax expense	10.0	13.3	-24.6%
PAT	18.7	26.8	-30.2%
PAT Margins (%)	7.8%	11.2%	-340 bps
Cash Profit	25.5	32.6	-21.9%

Key Developments



Creative Flavours & Fragrances (CFF) reports healthy topline performance in Q1 FY19

- SHK's recent acquisition, CFF, reported a healthy volume growth during the quarter. This, combined with price increase taken, resulted in strong revenue growth of 18% in CFF's core Fragrance division. Profitability was under pressure given the on-going raw material supply disruptions. CFF is planning to take further price increases to normalize margins. SHK is actively pursuing prospects to cross-sell technology from CFF to launch innovative products in the Indian market

Acquisition of China-based Anhui Ruibang Aroma Co Ltd

- SHK, through its subsidiary Keva Fragrance Industries Pte Ltd, Singapore, has acquired 66.67% of Anhui Ruibang Aroma Co Ltd., a company based in China. At a time when there is strong global demand for Tonalid, a key aroma ingredient, this acquisition has provided SHK access to additional manufacturing capacity. Coupled with the new facility at Mahad, which is expected to go on stream later this year, this will help the group service the demand better

Q1 FY2019 Financial and Operational Discussions (Y-o-Y)



Revenues from operations stood at Rs. 236.0 crore in Q1 FY19 as against Rs. 233.9 crore in Q1 FY18

- Domestic Fragrance business witnessed healthy revival of demand and grew at 13%, while a slowdown in the Company's international markets impacted performance in the overseas fragrance segment.
- Flavour's division reported a subdued performance on the back of price surge in key raw materials.
- Overall, the Company witnessed a challenging business environment due to the ongoing supply-side disruptions and other broader market challenges.

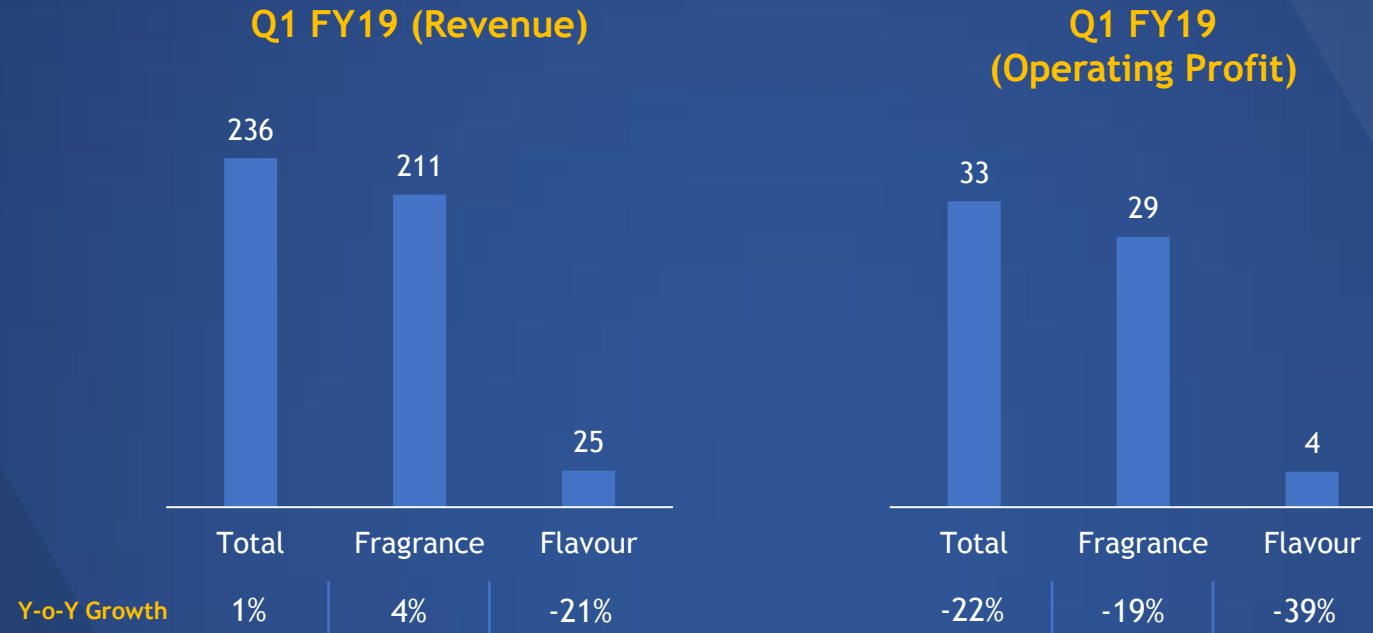
EBITDA at Rs. 36.2 crore as against Rs. 46.5 crore in Q1 FY18; EBITDA margins at 15.1% vs 19.4%

- Slowdown in revenues resulted in lower profitability during the quarter. Furthermore, the raw material situation impacted margins.
- Unprecedented price surge in key raw materials and supply side disruption continued to impact profitability during the quarter. While the Company has taken measures to mitigate cost pressure through increase in selling price and plans to take further such steps in future as well as undertake cost-saving measures, the pass through of the same to margins is expected to start reflecting in performance over the coming quarters, albeit with a lag.

PAT stood at Rs. 18.7 crore as against Rs. 26.8 crore in Q1 FY18

The Company firmly believes the core business is performing in line with market and the medium to long-term outlook remains positive

Revenue & Operating Performance - Q1 FY19

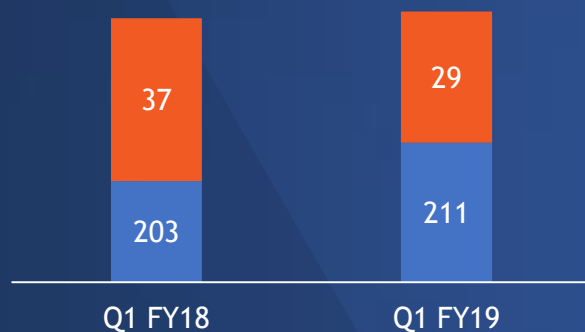


- The Company reported a steady topline performance - Q1 FY19 Revenue from operations grew at 1%; similarly constant currency sales remained flat
- Performance in the overseas Fragrance and Flavour division were adversely affected due to supply side constraints coupled with a surge in key raw material prices
- In a current environment, the Company consciously focused more towards improving the quality of earnings than on growth in our International Fragrance business. This, along with a weaker Rupee, led to an improvement in gross margins to 44% from 39% Q-o-Q

Fragrance Division

Net Revenue & Operating Profit - Q1 FY19

■ Revenue ■ OP



- Domestic Fragrance business reported healthy growth of 13%, while a slowdown in the international markets impacted performance in the overseas segment
- Surge in raw material prices resulted in subdued profitability
- Operating profit stood at Rs. 29 crore in Q1 FY19
 - Operating profit margins at 14%

Y-o-Y Growth

Rev. growth 4%

OP growth -19%

Domestic and Overseas Revenue - Q1 FY19



Note: Figures in Rs. crore

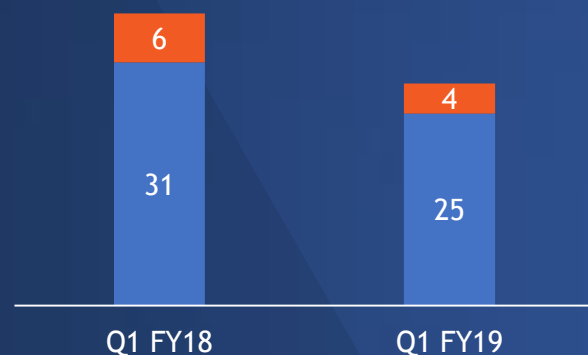
Y-o-Y Growth (%)	Q1 FY19
Domestic	13%
Overseas	-11%
Total Growth	4%



Flavour Division

Net Revenue & Operating Profit - Q1 FY19

■ Revenue ■ OP



- Flavour division reported a decline in performance during the quarter. Increased pricing pressures due to supply-side disruptions impacted performance in the domestic market
- Operating profit was at Rs. 4 crore with margins at 15.7%

Y-o-Y Growth

Rev. growth -21%

OP growth -39%

Domestic and Overseas Revenue - Q1 FY19



Note: Figures in Rs. crore

Y-o-Y Growth (%)	Q1 FY19
Domestic	-36
Overseas	3
Total Growth	-21



Balance Sheet Snapshot - As on June 30, 2018

864

Networth

413

Fixed Assets

28

Cash & Investments

172

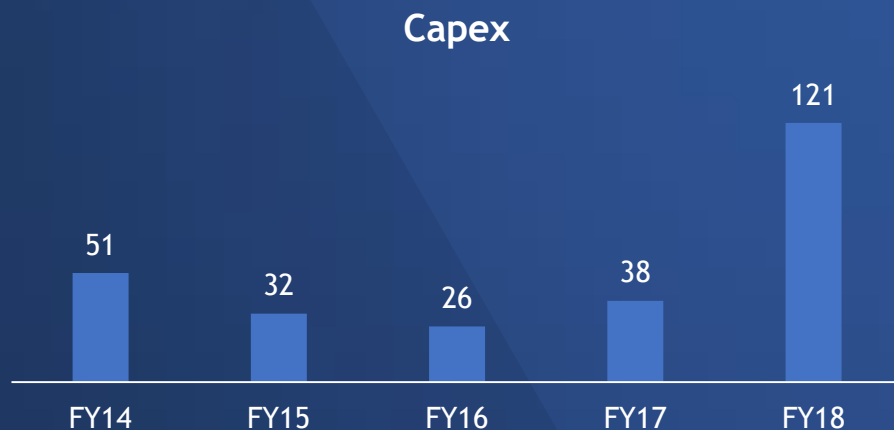
Net Debt

Cash Flow Snapshot



Particulars (Rs. crore)	FY14	FY15	FY16	FY17	FY18	Q1 FY19
Cash flow from Operations	32.1	61.7	86.4	102.3	103.3	25.4
Cash flow from investing activities	-63.7	-17.3	-22.4	-96.0	-220.6	-36.9
Net	-31.6	44.4	64.0	6.3	-117.3	-11.5

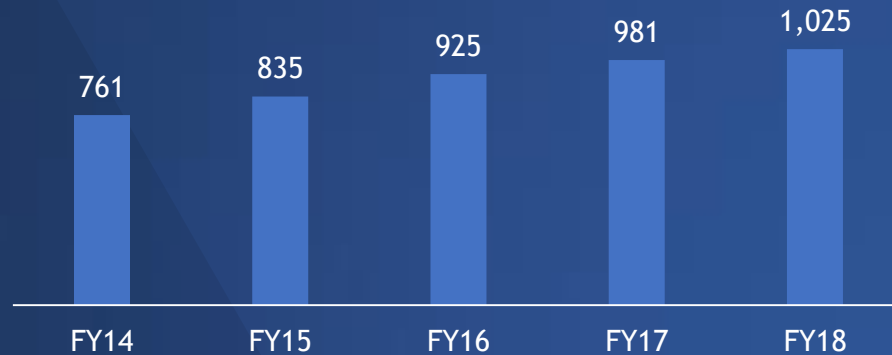
Note: Cash and cash equivalent includes investments in mutual fund



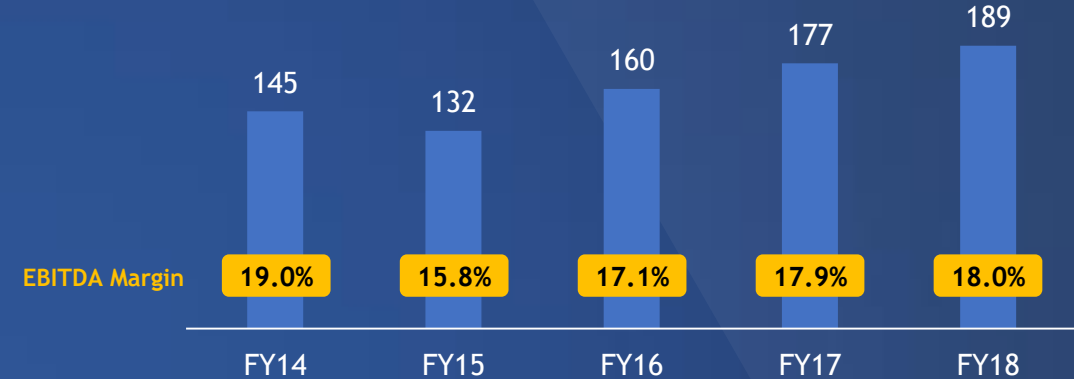
- Low capital intensive business - robust cash flow generation remains a key strength of SHK's business model
- Investments in FY17 and FY18 primarily towards in-organic opportunities - benefits to reflect in cash flows going forward

Robust Historical Financial Trend

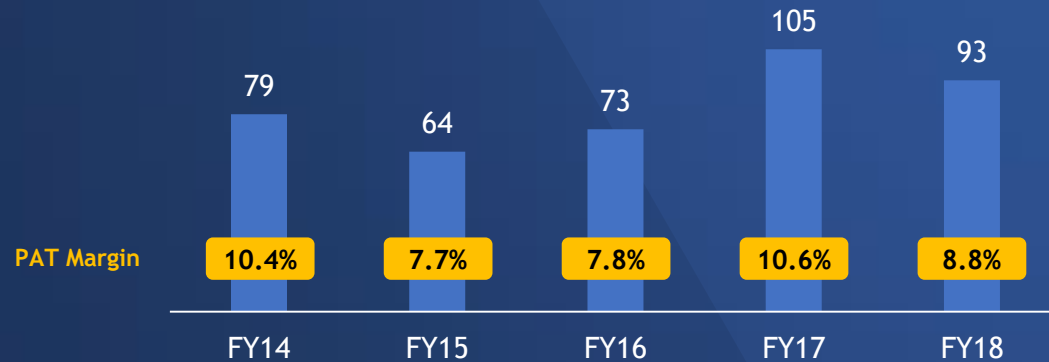
Total Operating Income



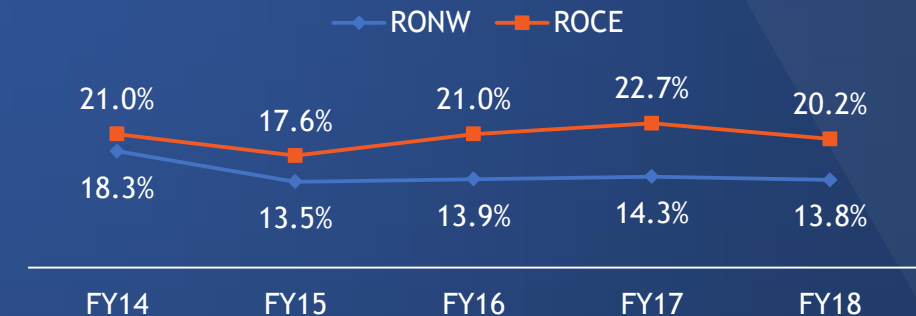
EBITDA



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 Q1 FY19 Earnings Conference Call

Time	<ul style="list-style-type: none">• 4.00 PM IST on Friday, August 10, 2018
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Primary dial-in number	<ul style="list-style-type: none">• +91 22 6280 1141• +91 22 7115 8042
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India Local access Number	<ul style="list-style-type: none">• +91 70456 71221 (Available all over India)
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International Toll Free Number	<ul style="list-style-type: none">• Hong Kong: 800 964 448• Singapore: 800 101 2045• UK: 0 808 101 1573• USA: 1 866 746 2133
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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 94 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