



*Crafting Sensorial Delight*

# S H Kelkar and Company Limited

Largest Indian-origin Fragrance & Flavour Company

Q2 & H1 FY18 Earnings Presentation

November 13, 2017







## Disclaimer

Certain statements and opinions with respect to the anticipated future performance of SHK in the presentation (“forward-looking statements”), which reflect various assumptions concerning the strategies, objectives and anticipated results may or may not prove to be correct. Such forward-looking statements involve a number of risks, uncertainties and assumptions which could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements. These include, among other factors, changes in economic, political, regulatory, business or other market conditions. Such forward-looking statements only speak as at the date the presentation is provided to the recipient and SHK is not under any obligation to update or revise such forward-looking statements to reflect new events or circumstances. No representation or warranty (whether express or implied) is given in respect of any information in this presentation or that this presentation is suitable for the recipient’s purposes. The delivery of this presentation does not imply that the information herein is correct as at any time subsequent to the date hereof and SHK has no obligation whatsoever to update any of the information or the conclusions contained herein or to correct any inaccuracies which may become apparent subsequent to the date hereof.





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## Q2 & H1 FY18 Results Overview

# Management Comment



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

*“We have reported a subdued performance during the quarter as GST related challenges impacted our domestic business. While we were anticipating demand to slowdown in Q2 owing to GST implementation, the recovery was much slower than we anticipated earlier especially in the months of July and August. We saw demand stabilizing in September and I am pleased to share that we recorded healthy sales growth in the month of October itself. So we strongly believe the Q2 performance was a temporary blip in demand and expect the momentum built in October to continue in the upcoming months.*

*Amidst the challenging business environment, our focus on improving operational efficiencies and cost rationalization remains on track. We are hopeful that such efforts will help us in achieving our goal of delivering superior and sustainable ROIs going forward.*

*Going ahead, we are confident of delivering improved results as revival in macros coupled with our strategic initiatives towards strengthening our product offerings. We foresee that our strong supply chain position will enable us to further augment business performance from H2 FY18 onwards.”*



# Consolidated Summarized P&L Statement

Particulars (Rs. crore)	Q2 FY18	Q2 FY17	Y-o-Y Change (%)	H1 FY18	H1 FY17	Y-o-Y Change (%)
Revenues from Operations (Sales excluding Excise & GST)	220.8	243.8	-9.4%	454.8	498.2	-8.7%
Other Operating Income	1.1	1.5	-25.3%	2.2	2.9	-24.9%
<b>Total Operating Income</b>	<b>221.9</b>	<b>245.3</b>	<b>-9.5%</b>	<b>456.9</b>	<b>501.1</b>	<b>-8.8%</b>
Other Income	1.2	2.5	-53.3%	5.5	5.7	-2.4%
<b>Total Income</b>	<b>223.1</b>	<b>247.7</b>	<b>-10.0%</b>	<b>462.5</b>	<b>506.8</b>	<b>-8.7%</b>
Total Expenditure	186.5	203.3	-8.3%	379.4	411.8	-7.9%
▪ Raw Material expenses	114.6	136.3	-15.9%	236.7	278.1	-14.9%
▪ Employee benefits expense	30.7	30.2	1.6%	60.9	58.5	4.1%
▪ Other expenses	41.2	36.8	12.1%	81.7	75.2	8.7%
<b>EBITDA</b>	<b>36.6</b>	<b>44.5</b>	<b>-17.7%</b>	<b>83.1</b>	<b>95.0</b>	<b>-12.5%</b>
<b>EBITDA margin (%)</b>	<b>16.4%</b>	<b>18.0%</b>	<b>-160 bps</b>	<b>18.0%</b>	<b>18.7%</b>	<b>-70 bps</b>
Finance Costs	1.1	2.2	-50.3%	1.7	4.1	-59.1%
Depreciation and Amortization	5.7	4.9	16.2%	11.5	9.3	23.9%
<b>PBT</b>	<b>29.8</b>	<b>37.4</b>	<b>-20.3%</b>	<b>69.9</b>	<b>81.6</b>	<b>-14.4%</b>
Tax expense	11.0	13.2	-16.5%	24.3	29.8	-18.7%
<b>PAT</b>	<b>18.8</b>	<b>24.3</b>	<b>-22.4%</b>	<b>45.7</b>	<b>51.8</b>	<b>-11.8%</b>
<b>PAT Margins</b>	<b>8.4%</b>	<b>9.8%</b>	<b>-140 bps</b>	<b>9.9%</b>	<b>10.2%</b>	<b>-30 bps</b>
Cash Profit	24.5	29.2	-15.9%	57.2	61.1	-6.4%

# Key Developments

## **Executed Share Purchase Agreement to buyout 100% share capital of VN Creative Chemicals (VNCC)**

- With the acquisition, Company to acquire full control of land and manufacturing facility (including plant and machinery) in Raigad, Maharashtra, owned by VNCC
- Investment in-line with the Company's earlier envisaged strategic cost-saving initiative in the overseas Fragrance division, which will allow greater flexibility in backend manufacturing operations and leverage existing presence in a competitive and high quality centre like India
- The Company expects to execute this initiative by end of this fiscal and showcase higher earnings in the International Fragrance from second half FY19 onwards

## **Established Fine Fragrance Development Centre in Amsterdam, Netherlands during H1 FY18**

- Part of long-term goal to establish a respectable global position in this segment

## **Emphasis on R&D to continue**

- The Company has filed 10 patent applications, of which 2 have been commercially exploited in the deodorant and fine fragrance categories. Newly launched development centre expected to further improve commercial traction

# H1 FY2018 Financial and Operational Discussions (Y-o-Y)



## **Revenues from operations stood at Rs. 455 crore as against Rs. 498 crore**

- Topline performance was lower owing to GST-led issues impacting demand in the domestic market
  - Sales in the months of July and August were much lower than expected - sales performance stabilized in the month of September and the Company witnessed a healthy uptick in the month of October
    - The Company expects growth to accelerate from Q3 onwards as trade stabilizes across the domestic market along with improving macro factors
- Export performance in the Fragrance division was subdued owing to a challenging geo-political environment prevalent in the Middle East

## **EBITDA stood at Rs. 83 crore; EBITDA margins at 18.0%**

- Gross margins improved to 49% as compared to 45% in the corresponding period as a result of better sales mix
- EBITDA margins declined by 70 bps on account of lower revenues

## **PBT at Rs. 70 crore**

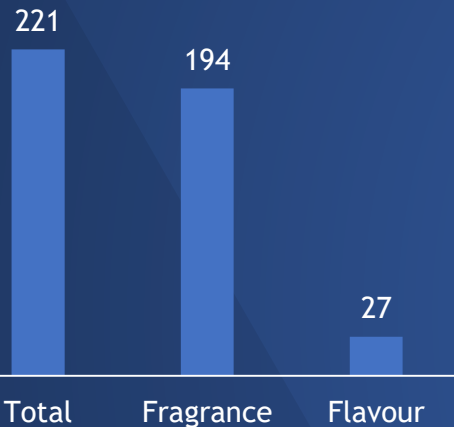
- PBT is lower by 14.4% at Rs. 70 crore as against Rs. 82 crore in H1 FY17

## **PAT stood at Rs. 46 crore as against Rs. 52 crore; EPS at Rs. 3.16**

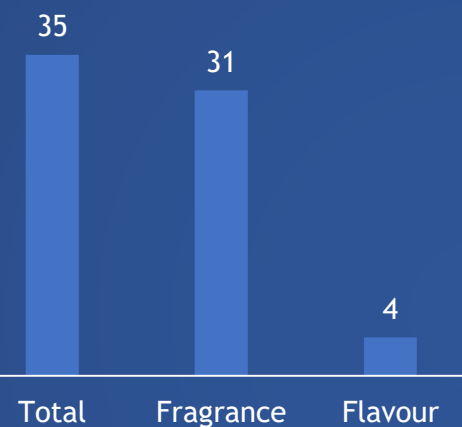
- PAT margins at 9.9% as against 10.2% in H1 FY17

# Revenue & Operating Performance - Q2 & H1 FY18

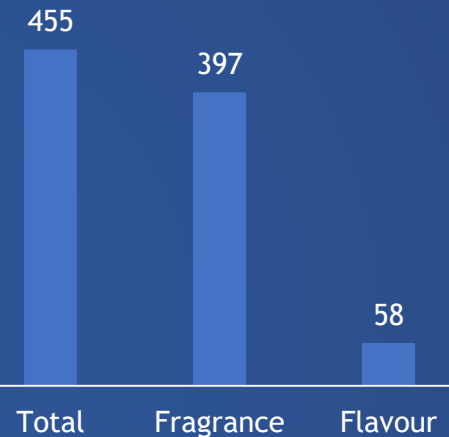
Q2 FY18 (Revenue)



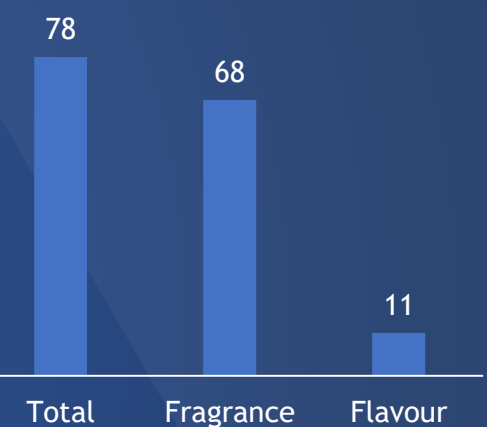
Q2 FY18  
(Operating Profit)



H1 FY18 (Revenue)



H1 FY18  
(Operating Profit)



Y-o-Y Growth

-9%	-12%	17%	-10%	-13%	24%	-9%	-10%	1%	-7%	-4%	-24%
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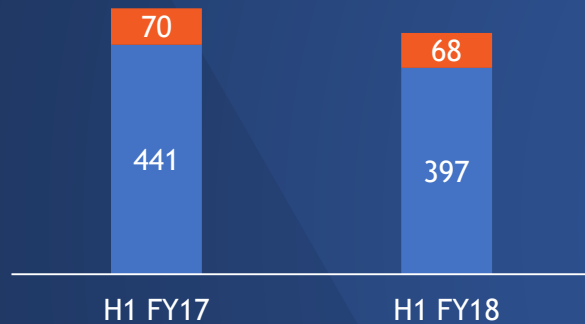
- For H1 FY18, revenues came in at Rs. 455 crore; Constant currency revenues was lower by 8%
  - Lower consumer offtake and slower re-stocking resulted in a sluggish performance on the domestic front during the period under review
- Overall, challenging macro environment witnessed across the domestic and international markets resulted in subdued performance
- Fragrance division contributed 87% to Total Revenues and contribution of Flavours division stood at 13%



# Fragrance Division

## Net Revenue & Operating Profit - H1 FY18

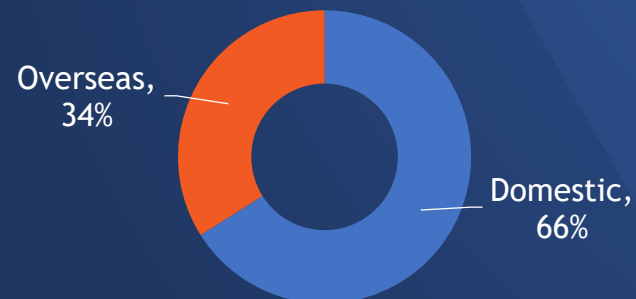
■ Revenue ■ OP



- Fragrance division delivered slower growth during the period - domestic revenues declined by 13%, overseas revenues reported de-growth of 3%
- A transitory challenging environment across trade and channels led to subdued domestic performance
- Operating profit was at Rs 68 crore, lower by 4%
  - Operating profit margins - at 17.0% in H1 FY18 vs 16.0% in H1 FY17

Y-o-Y Growth    Rev. growth -10%    OP growth -4%

## Domestic and Overseas Revenue - H1 FY18



Note: Figures in Rs. crore

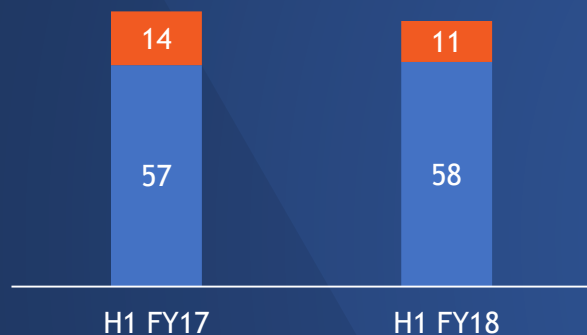
Y-o-Y Growth (%)	H1 FY18
Domestic	-13
Overseas	-3
Total Growth	-10



# Flavour Division

## Net Revenue & Operating Profit - H1 FY18

■ Revenue ■ OP



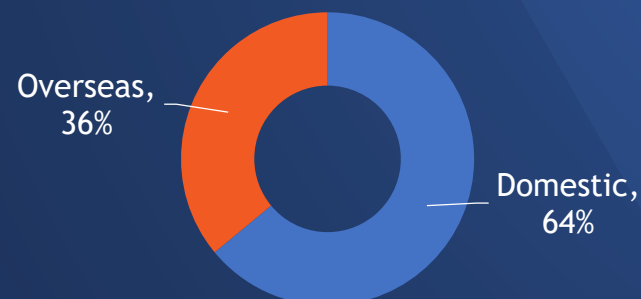
- Flavour division reported a steady performance during the period
- Domestic segment grew 11%, while overseas business reported de-growth of 12%
  - Healthy market share gains in the domestic markets aided growth
- Operating profit margins at 18.2% in H1 FY18 vs 24.2% in H1 FY17

Y-o-Y Growth

Rev. growth 1%

OP growth -24%

## Domestic and Overseas Revenue - H1 FY18



Note: Figures in Rs. crore

Y-o-Y Growth (%)	H1 FY18
Domestic	11
Overseas	-12
Total Growth	1



# Consolidated Balance Sheet



EQUITY AND LIABILITIES	CONSOLIDATED	CONSOLIDATED
Particulars (Rs. Crore)	As at 30th September 2017 (Unaudited)	As at 31st March 2017 (Audited)
<b>Equity</b>		
Equity share capital	144.62	144.62
Other equity		
Retained earnings	319.23	304.72
Other Reserves	369.55	362.42
Equity attributable to owners of the Company	833.40	811.76
Non-Controlling Interest	0.00	0.00
<b>Total equity</b>	<b>833.40</b>	<b>811.76</b>
<b>Non-current liabilities</b>		
<b>Financial liabilities</b>		
Borrowings	3.38	9.17
Deposits	1.21	1.10
Provisions	0.76	5.42
Deferred Tax Liabilities	10.27	7.33
<b>Total non-current liabilities</b>	<b>15.62</b>	<b>23.02</b>
<b>Current liabilities</b>		
<b>Financial liabilities</b>		
Short term borrowings	57.24	53.19
Trade payables	124.69	110.68
Other financial liabilities	33.56	46.13
Derivatives	0.02	0.20
Other current liabilities	19.34	16.84
Provisions	12.91	5.70
Liabilities for current tax (net)	22.15	11.39
<b>Total current liabilities</b>	<b>269.91</b>	<b>244.13</b>
<b>Total Liabilities</b>	<b>285.53</b>	<b>267.15</b>
<b>TOTAL - EQUITY AND LIABILITIES</b>	<b>1,118.93</b>	<b>1,078.91</b>

ASSETS	CONSOLIDATED	CONSOLIDATED
Particulars (Rs. Crore)	As at 30th September 2017 (Unaudited)	As at 31st March 2017 (Audited)
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, Plant and Equipment	271.51	233.14
Capital work-in-progress	19.84	2.44
Goodwill on Consolidation	21.56	20.64
Other Intangible assets	42.07	42.58
Intangible Assets under Development	8.79	5.01
<b>Financial Assets</b>		
Loans	3.48	2.24
Others	1.12	1.11
Deferred tax assets (net)	5.90	4.08
Current tax assets (net)	27.25	25.49
Other non-current assets	43.17	43.08
<b>Total non current assets</b>	<b>444.69</b>	<b>379.81</b>
<b>Current Assets</b>		
Inventories	390.15	350.16
<b>Financial Assets</b>		
Investments	11.04	49.68
Trade receivables	218.80	217.01
Cash and cash equivalents	8.80	41.91
Bank balances other than above	8.77	13.54
Loans	7.38	3.66
Derivatives	0.00	2.07
Others	0.79	1.29
Other current assets	28.51	19.78
<b>Total current assets</b>	<b>674.24</b>	<b>699.10</b>
<b>TOTAL - ASSETS</b>	<b>1,118.93</b>	<b>1,078.91</b>



# Balance Sheet Snapshot - As on 30<sup>th</sup> September, 2017



**833**

Networth

**342**

Fixed Assets

**29**

Cash & Investments

**46**

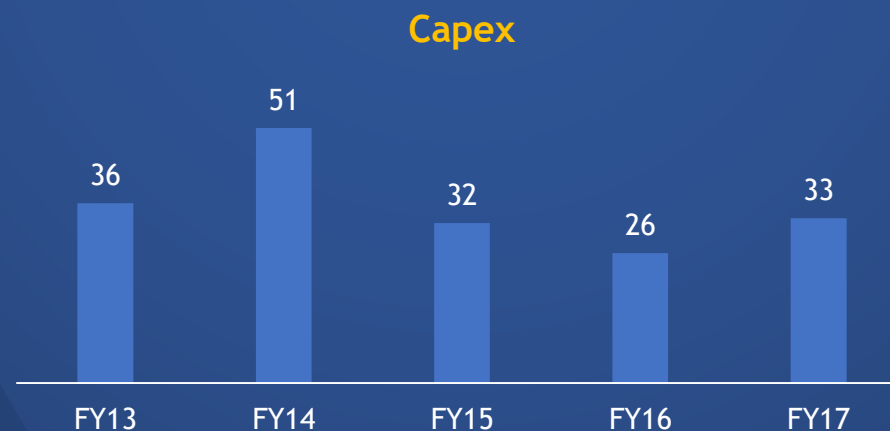
Net Debt

# Cash Flow Snapshot



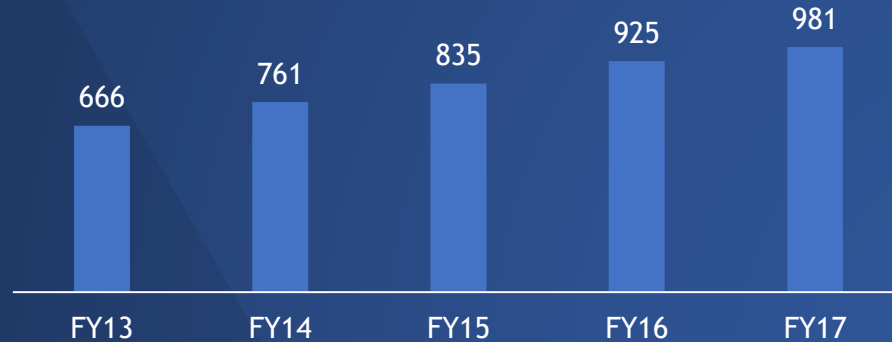
Particulars (Rs. crore)	FY13	FY14	FY15	FY16	FY17	H1 FY18
Cash flow from Operations	103.1	32.1	61.7	86.4	103.2	29.3
Cash flow from investing activities	-33.3	-63.7	-17.3	-22.4	-93.0	-71.9
Net	69.8	-31.6	44.4	64.0	10.2	-42.6

Note: Cash and cash equivalent includes investments in mutual fund

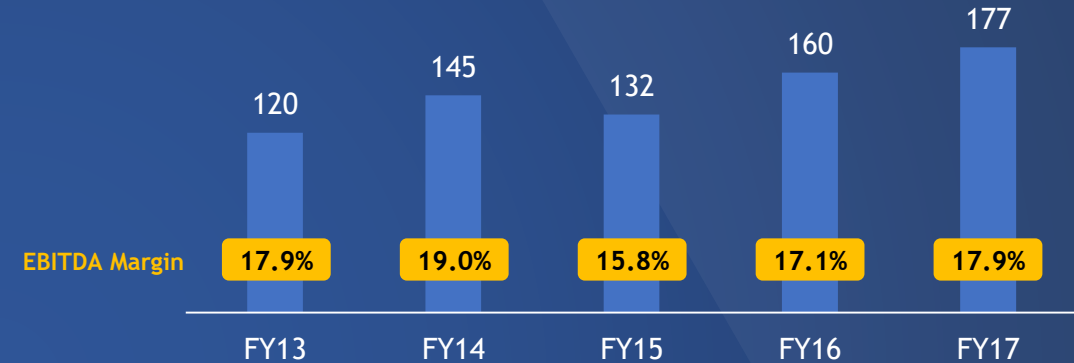


# Robust Historical Financial Trend

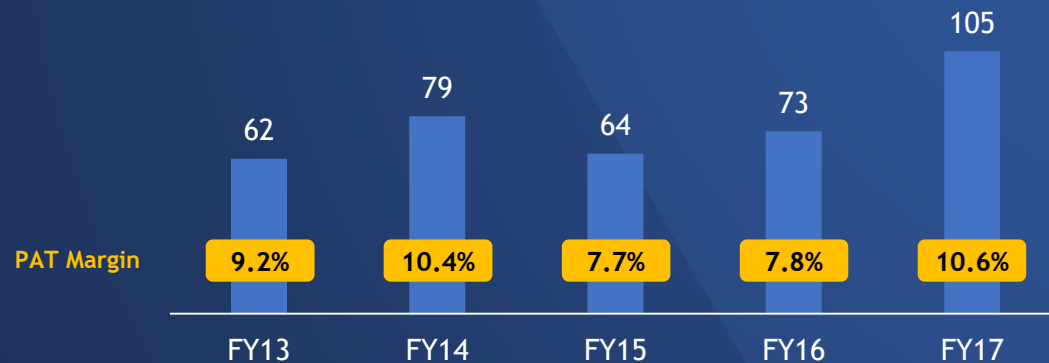
## Net Revenue from Operations



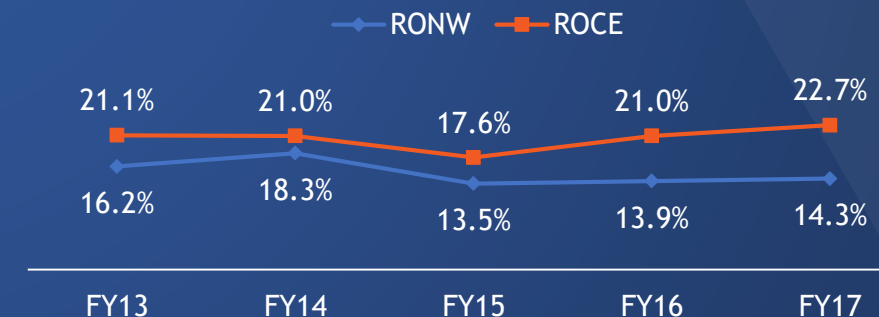
## EBITDA



## PAT



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





# Key Financial Ratios

Particulars (Rs. crore)	FY13	FY14	FY15	FY16	FY17	H1 FY18
EBITDA margin (%)	17.9	19.0	15.8	17.1	17.9	18.0
PAT Margin (%)	9.2	10.4	7.7	7.8	10.6	9.9
Debt to Equity	0.3	0.4	0.5	0.1	0.1	0.1
Debt to EBITDA	1.1	1.3	1.8	0.5	0.4	0.4
Return on Networth (%)	16.2	18.3	13.5	13.9	14.3	11.6
Return on Capital Employed (%)	21.1	21.0	17.6	21.0	22.7	17.9

Note:

1. Return on Networth is calculated as: PAT/ Average Networth
2. Return on Capital Employed is calculated as: EBIT/ Average Capital Employed
3. All figures till FY15 as per IGAAP;



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Annexure

# Conference Call Details



## S H Kelkar and Company Ltd.'s Q2 & H1 FY18 Earnings Conference Call

<b>Time</b>	• 12.00 noon IST on Tuesday, November 14, 2017
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<b>Primary dial-in number</b>	• +91 22 3938 1071
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<b>India Local access Number</b>	• +91 22 3940 3977 (Accessible from all carriers)
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<b>International Toll Free Number</b>	• 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 90 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 five creation and development centers in Mumbai, Bengaluru, The Netherlands and Indonesia for the development of fragrance and flavour products. The research team has developed 12 molecules over the last three years. The Company has filed 10 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. Newly established Fine Fragrance development centre in Amsterdam expected to further improve commercial traction in this segment.

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 of over 4,100 customers 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