



*Crafting Sensorial Delight*

# S H Kelkar and Company Limited

Largest Indian-origin Fragrance & Flavour Company

Q2 & H1 FY19 Earnings Presentation

November 1, 2018







## Disclaimer

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## Q2 & H1 FY19 Results Overview

# Management Comment



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

*“I am delighted to share that we have reported a healthy performance during the quarter led by increased momentum in our core fragrance business. The domestic Fragrance business delivered a heartening growth of 36% in Q2, translating into a consolidated segment growth of 31%. Our overseas flavor business also reported healthy performance during the quarter.*

*On the operational front, we are happy to share that we have formally inaugurated our aroma ingredients manufacturing facility at Mahad. This plant is one of the largest manufacturing facilities for Tonalid, worldwide and will also manufacture other key specialty ingredients used in the fragrance industry. In addition, we optimized capacity at our other Tonalid manufacturing facility in China at nominal capex. The operationalization of these two facilities will not only help improve business efficiencies, but also consolidate our global market leadership for Tonalid.*

*On the whole, we are witnessing an uptick in consumer demand and a healthy trend of new product launches in the FMCG industry. This, along with improving availability of key ingredients should enable us to further strengthen our overall business performance in the second half of the current fiscal.”*



# Consolidated Summarized P&L Statement

Particulars (Rs. crore)	Q2 FY19	Q2 FY18	Y-o-Y Change (%)	H1 FY19	H1 FY18	Y-o-Y Change (%)
Revenues from Operations (Sales excluding Excise & GST)	282.1	220.8	27.7%	518.1	454.8	13.9%
Other Operating Income	1.4	0.4	282.5%	1.8	0.8	139.5%
<b>Total Operating Income</b>	<b>283.5</b>	<b>221.2</b>	<b>28.2%</b>	<b>519.9</b>	<b>455.5</b>	<b>14.1%</b>
Other Income	6.0	1.9	219.0%	9.3	6.9	34.4%
<b>Total Income</b>	<b>289.5</b>	<b>223.1</b>	<b>29.8%</b>	<b>529.2</b>	<b>462.5</b>	<b>14.4%</b>
Total Expenditure	246.8	186.5	32.3%	450.2	379.4	18.7%
▪ Raw Material expenses	162.9	114.6	42.2%	295.1	236.7	24.6%
▪ Employee benefits expense	37.6	30.7	22.5%	66.7	60.9	9.6%
▪ Other expenses	46.3	41.2	12.3%	88.5	81.7	8.2%
<b>EBITDA</b>	<b>42.8</b>	<b>36.6</b>	<b>16.8%</b>	<b>79.0</b>	<b>83.1</b>	<b>-4.9%</b>
<b>EBITDA margin (%)</b>	<b>14.8%</b>	<b>16.4%</b>	<b>-164 bps</b>	<b>14.9%</b>	<b>18.0%</b>	<b>-304 bps</b>
Finance Costs	1.9	1.1	76.0%	3.4	1.7	103.3%
Depreciation and Amortization	7.6	5.7	32.9%	14.4	11.5	24.6%
<b>PBT</b>	<b>33.3</b>	<b>29.8</b>	<b>11.7%</b>	<b>61.2</b>	<b>69.9</b>	<b>-12.4%</b>
Tax expense	4.9	11.0	-55.6%	14.9	24.3	-38.6%
<b>PAT</b>	<b>28.8</b>	<b>18.9</b>	<b>52.8%</b>	<b>47.5</b>	<b>45.7</b>	<b>4.1%</b>
<b>PAT Margins</b>	<b>10.0%</b>	<b>8.5%</b>	<b>+150 bps</b>	<b>9.0%</b>	<b>9.9%</b>	<b>-90 bps</b>
Cash Profit	36.4	24.6	48.1%	61.9	57.2	8.2%

# Key Developments



## **Formal inauguration of aroma ingredients manufacturing facility at Mahad, Maharashtra during the quarter**

- The state-of-the-art facility will manufacture Tonalid and other key raw materials used in the fragrance industry
- With a total installed capacity of 1,200 MTPA, the facility is one of the largest manufacturing facilities for Tonalid, worldwide
- This is in sync with a previously announced strategic investment plan to shift production of aroma ingredients from Barneveld, Netherlands to a high quality & operationally efficient center like India

## **Capacity optimization at the Tonalid manufacturing facility in China**

- Following the acquisition of a majority equity stake in Anhui Ruibang Aroma Chemical Co. in May 2018, the Company has optimized the capacity at its Tonalid manufacturing facility in China at nominal capex
- The installed capacity is now optimized to 400 MTPA

# H1 FY2019 Financial and Operational Discussions (Y-o-Y)



**Revenues from operations stood at Rs. 518 crore as against Rs. 455 crore, higher by 14% YoY - constant currency revenues growth was at 11.5%**

- Normalized revenue run-rate achieved in Q2 enabled the Company to report healthy growth in H1
- Improving demand environment and increased consumption trends in the FMCG industry assisted overall performance
- The fragrance business reported robust traction during H1 FY19 led by strong growth in domestic markets
  - The Company's core Domestic Fragrance business delivered a 24% growth, while the international segment registered a growth of 3% YoY
- Performance in the domestic Flavours business was impacted due to raw material supply disruptions. The Company expects to report normalized growth rates from H2 onwards
  - International flavors segment grew at a healthy rate of 12%

**EBITDA stood at Rs. 79 crore; EBITDA margins at 14.9%**

- Cost pressures on key raw materials impacted profitability on a YoY basis. The Company has undertaken price increases to partially cover the unprecedented raw material inflation. It expects to take further increases to normalize gross margins over the long-term
- The employee costs increased by 10% YoY. This was partially due to a one-time expense incurred during Q2 FY19 towards rationalization of Creative Development Centers (CDC) in Europe

# H1 FY2019 Financial and Operational Discussions (Y-o-Y)



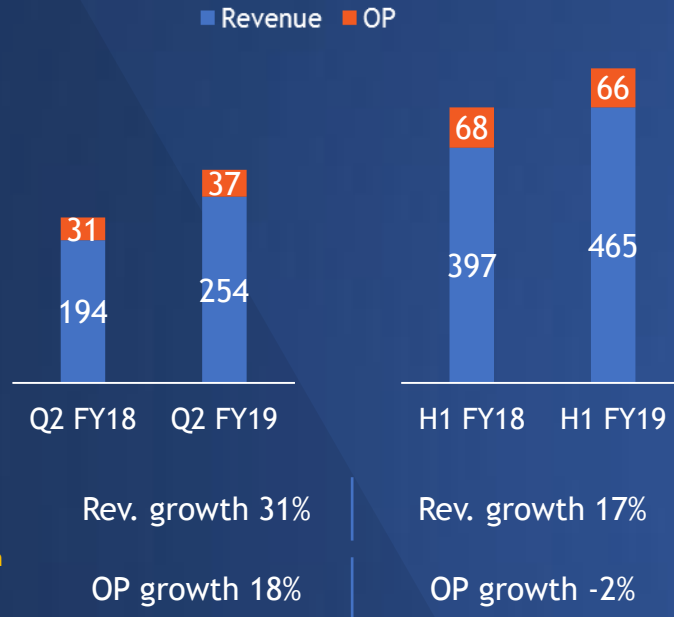
PAT stood at Rs. 48 crore, higher by 4%; EPS at Rs. 3.32

The Company is witnessing the initial signs of normalization of business growth and believes the core business is performing in line with market. Accordingly, the Company expects business performance to gain strength in H2 FY2019



# Fragrance Division

## Net Revenue & Operating Profit



- Fragrance division delivered healthy growth in H1 assisted by robust revival in Q2
- Domestic Fragrance business reported solid performance of 24% in H1; while overseas revenues grew by 3%
- Surge in raw material costs impacted profitability on a YoY basis - price increases with improving availability of raw materials should assist operating margins over the long-term

## Domestic and Overseas Revenue - H1 FY19



Y-o-Y Growth (%)	Q2 FY19	H1 FY19
Domestic	36	24
Overseas	20	3
<b>Total Growth</b>	<b>31</b>	<b>17</b>

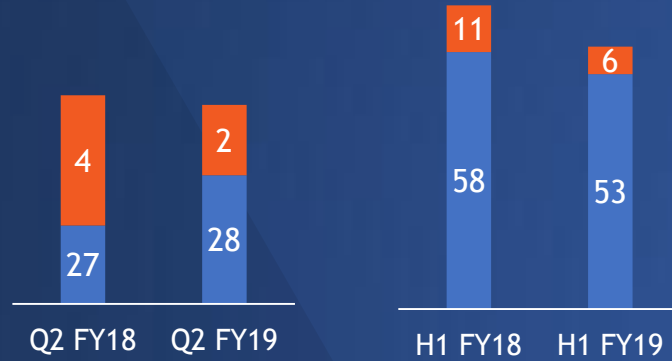
Note: Figures in Rs. Crore unless specified otherwise



# Flavour Division

## Net Revenue & Operating Profit

■ Revenue ■ OP



Rev. growth 6%

Rev. growth -9%

OP growth -46%

OP growth -41%

- Flavour division reported a subdued performance during the period -domestic revenues came in lower by 20% in H1 as a result of supply-side disruptions which led to increased pricing pressures in the domestic market
- Operating profit was at Rs. 6 crore with margins at 12% in H1

## Domestic and Overseas Revenue - H1 FY19



Y-o-Y Growth (%)	Q2 FY19	H1 FY19
Domestic	-3	-20
Overseas	24	12
Total Growth	6	-9

Note: Figures in Rs. Crore unless specified otherwise



# Consolidated Balance Sheet



EQUITY AND LIABILITIES	CONSOLIDATED	CONSOLIDATED
Particulars (Rs. Crore)	As at 30th September 2018 (Unaudited)	As at 31st March 2018 (Audited)
<b>Equity</b>		
Equity share capital	144.6	144.6
Other equity		
Retained earnings	385.4	368.4
Other Reserves	326.6	344.2
<b>Equity attributable to owners of the Company</b>	<b>856.6</b>	<b>857.2</b>
Non-Controlling Interest	11.0	-
<b>Total equity</b>	<b>867.6</b>	<b>857.2</b>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Financial liabilities		
Borrowings	80.8	48.2
Others	1.1	1.3
Provisions	0.8	0.6
Deferred tax liabilities (net)	8.4	8.2
<b>Total non-current liabilities</b>	<b>91.0</b>	<b>58.3</b>
<b>Current liabilities</b>		
Financial liabilities		
Borrowings	193.1	116.1
Trade payables	167.1	155.6
Other financial liabilities	25.7	29.0
Other current liabilities	19.0	25.3
Provisions	13.2	12.4
Current tax liabilities (net)	36.4	26.0
<b>Total current liabilities</b>	<b>454.5</b>	<b>364.4</b>
<b>Total Liabilities</b>	<b>545.5</b>	<b>422.7</b>
<b>TOTAL - EQUITY AND LIABILITIES</b>	<b>1,413.1</b>	<b>1,279.9</b>

ASSETS	CONSOLIDATED	CONSOLIDATED
Particulars (Rs. Crore)	As at 30th September 2018 (Unaudited)	As at 31st March 2018 (Audited)
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, Plant and Equipment	367.4	274.4
Capital work-in-progress	7.6	35.6
Investment Property	14.1	14.3
Goodwill	40.9	35.6
Other Intangible assets	39.9	27.5
Intangible Assets under Development	23.0	24.6
Equity Accounted Investee	96.0	94.9
Financial Assets		
Investments*	-	-
Loans	1.6	2.3
Others	2.2	1.4
Deferred tax assets (net)	17.6	4.4
Other tax assets (net)	21.4	25.2
Other non-current assets	35.9	41.2
<b>Total non current assets</b>	<b>667.4</b>	<b>581.4</b>
<b>Current Assets</b>		
Inventories	369.2	348.0
Financial Assets		
Investments	1.5	1.6
Trade receivables	287.6	276.6
Cash and cash equivalents	26.5	17.4
Other bank balances	3.8	6.5
Loans	5.6	4.1
Others	0.1	0.2
Other current assets	51.5	44.2
<b>TOTAL - ASSETS</b>	<b>1,413.1</b>	<b>1,279.9</b>



# Balance Sheet Snapshot - As on September 30, 2018



**857**

Networth

**465**

Fixed Assets

**32**

Cash & Investments

**242**

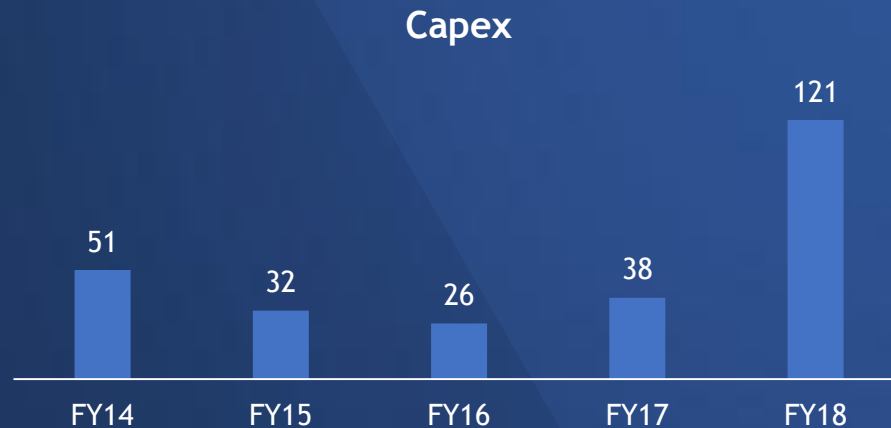
Net Debt

# Cash Flow Snapshot



Particulars (Rs. crore)	FY14	FY15	FY16	FY17	FY18	H1 FY19
Cash flow from Operations	32.1	61.7	86.4	102.3	103.3	41.6
Cash flow from investing activities	-63.7	-17.3	-22.4	-96.0	-220.6	-95.1
Net	-31.6	44.4	64.0	6.3	-117.3	-53.5

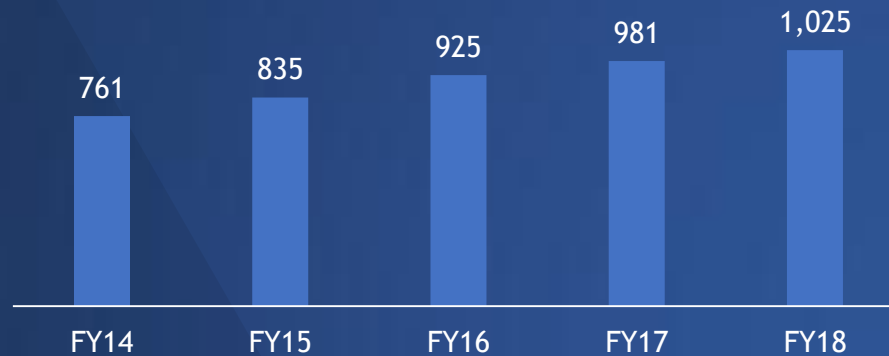
Note: Cash and cash equivalent includes investments in mutual fund



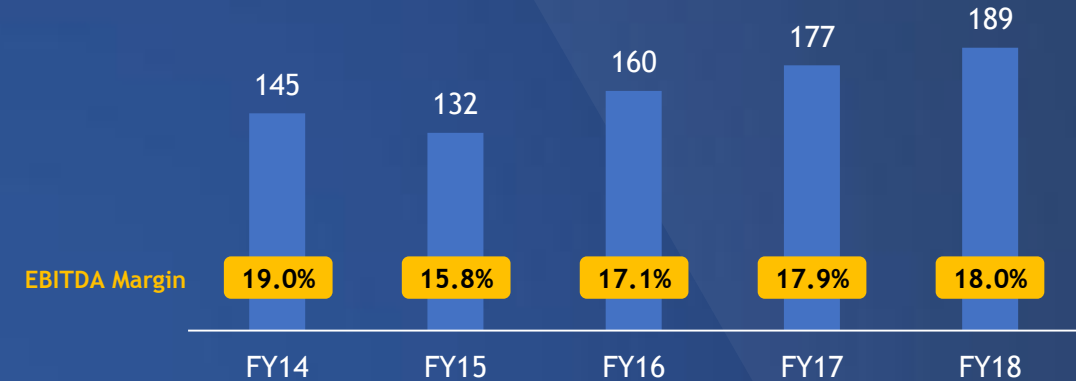
- Low capital intensive business - robust cash flow generation remains a key strength of SHK's business model
- Investments are primarily towards in-organic and other cost saving opportunities - benefits to reflect in cash flows going forward

# Robust Historical Financial Trend

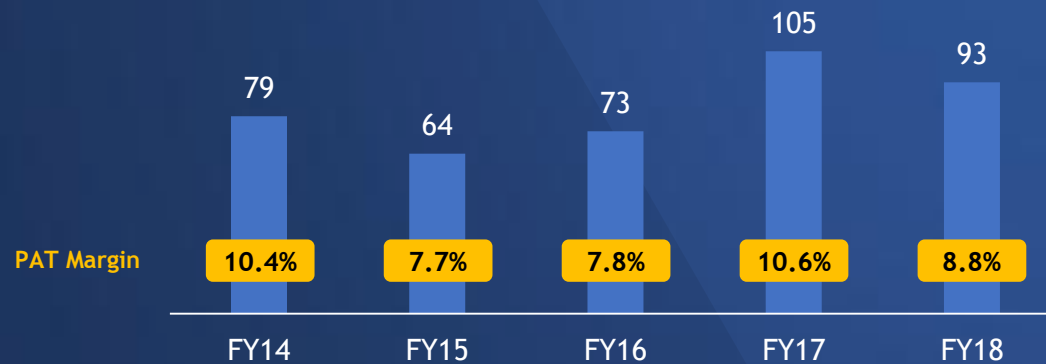
## Total Operating Income



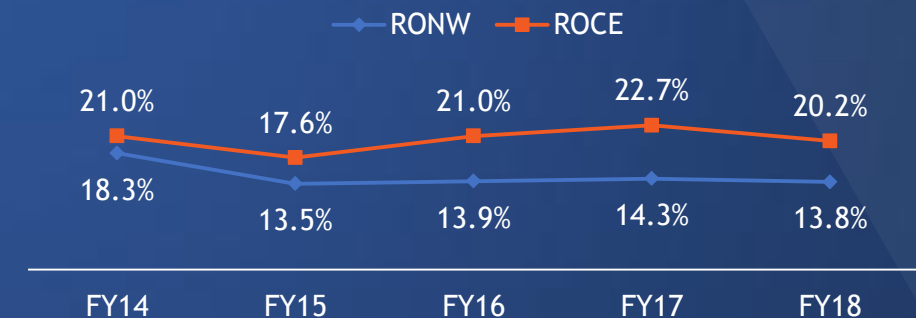
## EBITDA



## 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/ Average Networth
2. Return on Capital Employed is calculated as: EBIT/ 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 Q2 & H1 FY19 Earnings Conference Call

Time	• 5.00 PM IST on Thursday, November 1, 2018
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Primary dial-in number	• +91 22 6280 1141
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	• +91 22 7115 8042
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India Local access Number	• +91 70456 71221
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	• (Available all over India)
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International Toll Free	• Hong Kong: 800 964 448
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Number	• Singapore: 800 101 2045
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	• 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 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