

SH Kelkar & Co. Ltd.**₹ 318****Smell the Success !!!****Buy**

Jan 13, 2017

Company Background

S H Kelkar & Co. Ltd. (SH Kelkar) is a fragrance manufacturer in India. The Company operates in two segments: Fragrances, which manufactures/trades in Fragrances and aroma ingredients for Fragrances, and Flavours, which manufactures/trades in Flavors. It offers fragrances in various categories, such as personal care, hair care, skincare and cosmetics, fabric care, household products and fine fragrances. The Company offers flavors in various categories, such as dairy products, beverages, confectionery, bakery products & pharmaceuticals. It provides a range of services, which include Bio Technology Research Service, Cosmetic Research Service, Cosmetic Testing Laboratory and Custom Synthesis Services. The Company's manufacturing facilities are located at Vashivali, Vapi and Mulund in India, and Barneveld in the Netherlands. It conducts consultancy, formulation and efficacy studies in cosmetics and pharma products, and problem solving services for domestic and international markets.

Key Highlights

- ➔ SH Kelkar possesses a robust Balance Sheet, characterised by market-outperforming growth. In addition it is a debt-free company. This serves as a robust foundation to make the Company's global ambition a reality.
- ➔ SH Kelkar is one of the select full-fledged global companies of its size possessing research-led capabilities in the manufacture of flavours, fragrances and aroma ingredients. This competitive advantage is expected to translate into rapid growth across the foreseeable future.
- ➔ India's population of 1.3 billion is growing at a rate of 1.2% annually. It is a young country with almost 66% of the population below the age of 30. The consumption of goods will therefore be driven by younger and more affluent consumers. Additionally, India has a growing population of working women, which is expected to emerge as a large consumer of FMCG products which take up company's products as raw materials.
- ➔ The increase in personal disposable income of consumers will keep raising the demand for flavours and fragrances in the country so will directly benefit SH Kelkar who holds the largest market share in India.

Key Financials

Year Ended 31 st	Mar 14	Mar 15	Mar 16
Revenue (INR mn)	4,490.8	5,581.3	6,484.9
Rev. growth (%)	17.28	24.28	16.19
EBITDA (INR mn)	668.4	847.1	974.9
Net profit (INR mn)	438.8	616.7	708.1
Shares outstanding (mn)	14.2	141.5	144.6
EPS (INR)	3,317.5	4.7	4.6
EPS growth (%)	119.70	(99.86)	(1.50)
P/E (x)	0.00	44.48	49.35
RONW (%)	15.31	18.84	16.72
ROCE (%)	17.98	16.81	20.43

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Info Codes

Reuters	: SHKE.NS
Bloomberg	: SHKL:IN
NSE	: SHK
BSE	: 539450

Market Data

52 Wk Range (₹)	: 201 / 362
Shares in Issue (mn)	: 144.6
Mkt. Cap (₹ bn)	: 45.60
BSE 2 Wk Avg Vol	: 32000

Share Holding Pattern (%)

Promoters Holding	: 56.71
Corporate Holding	: 00.00
Domestic Institution	: 01.73
Foreign Institution	: 15.18
Public & Others	: 26.38

Investment Theme

The large global firms in the fragrances sector work with the largest downstream FMCG customers. SH Kelkar has never thought about size it has found its growth in the growth of its customers. Together with them, it has scripted many success stories. Going ahead, the Company intends to extend this commitment to larger global customers as well – an effective dual-approach strategy to emerge as one of the fastest growing global companies within its sector. SH Kelkar is well positioned to benefit from the opportunities for growth from emerging markets; the Company is leveraging its rich learnings from India to extend into other Asian geographies with similar demographics, income patterns and aspirations. This bottom-up customer understanding is expected to translate into accelerated revenue growth across the foreseeable future.

The Scent begins to spread !

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 14	Mar 15	% Chg	Mar 16	% Chg
Net Sales	3,992.5	4,740.7	18.7	5,609.3	18.3
Other Income	42.6	315.8	641.3	227.6	(27.9)
Change in Stocks	27.1	37.7	39.1	13.4	(64.5)
Raw Material Con.	2,251.4	2,925.4	29.9	3,435.3	17.4
Employee Exp.	383.7	479.1	24.9	530.7	10.8
Indirect Taxes	455.7	524.8	15.2	648.0	23.5
Other Exp.	124.5	190.0	52.6	65.4	(65.6)
Operating Exp.	3,215.3	4,119.3	28.1	4,679.4	13.6
Operating Profit	846.9	974.9	15.1	1,170.9	20.1
Total Interest	149.1	126.4	(15.2)	88.7	(29.8)
Gross Profit	697.8	848.5	21.6	1,082.2	27.5
Net Dep.	125.5	150.2	19.7	134.0	(10.8)
Total Taxation	133.5	81.6	(38.9)	240.1	194.2
Net Profit/Loss	438.8	616.7	40.5	708.1	14.8

4 Years Balance Sheet

(₹ mn)

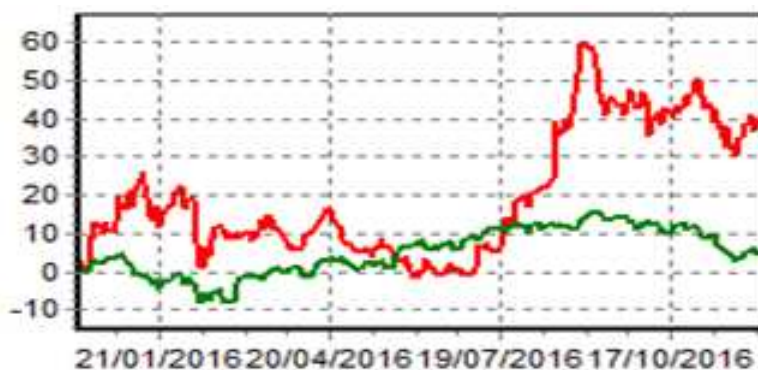
Balance Sheet as on 31 st	Mar 13	Mar 14	Mar 15	Mar 16
SOURCES OF FUNDS	4,059.1	3,963.4	4,637.6	5,511.2
Equity Share capital	120.3	141.5	1,414.7	1,446.2
Equity Application Money	523.4	0.0	0.0	0.0
Equity Share Warrants	0.0	0.0	0.0	0.0
Reserves & Surplus	2,397.0	2,560.1	1,684.7	4,018.1
Secured Loans	940.8	1,180.4	1,448.8	3.3
Unsecured Loans	77.6	81.4	89.4	43.6
USES OF FUNDS	4,059.1	3,963.4	4,637.6	5,511.2
Gross Block	1,816.7	1,906.5	1,960.2	2,078.1
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	841.7	867.7	1,020.0	1,151.8
Net Block	975.0	1,038.8	940.2	926.3
Capital Work in Progress	258.1	1.5	0.0	0.0
Investments	1,130.2	979.6	994.8	1,660.2
Current Assets	2,352.6	2,790.7	3,503.7	3,886.7
Less : Current Liabilities	701.9	984.8	910.7	1,091.5
Total Net Current Assets	1,650.7	1,805.9	2,593.0	2,795.2
Misc. Expenses not writtenoff	45.1	137.6	109.6	129.5
NOTE				
Book Value of Unquoted Investments	1,129.4	978.8	994.8	1,660.2
Market Value of Quoted Investments	0.0	0.0	0.0	0.0
Contingent Liabilities	811.0	1,208.9	775.7	1,061.4
Dividend (%)	15.0	113.4	10.7	15.0

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Dec 15	Mar 16	Jun 16	Sep 16
Net Sales	1,348.4	1,665.8	1,578.1	1,545.6
Cost Of Sales	1,108.6	1,369.7	1,233.1	1,275.7
Operating Profit	239.8	296.1	345.0	269.9
Other Income	18.3	36.1	22.6	21.4
Adjusted PBDIT	258.1	332.2	367.6	291.3
Financial Expenses	18.7	3.1	5.5	6.5
Depreciation	32.2	35.2	15.0	17.2
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	207.2	293.9	347.1	267.6
Tax Charges	40.8	96.3	119.2	81.1
Reported Profit	166.4	197.6	227.9	186.5
Extra Ordinary Items	0.0	0.0	0.0	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Adjusted Net Profit	166.4	197.6	227.9	186.5

52 Week Index Relative Percentage Appreciation



SH Kelkar vs SENSEX

Risks Associated

- The company is a budding firm employed in a speciality business which requires a lot of people who have skills, unfortunately the skilled persons in this industry are high in demand come at a higher price and are difficult to sustain. Unavailability of skilled personnel could adversely affect domestic flavour and fragrance manufacturers..
- The major products of the company are supplied to the FMCG and Personal Products sector. This segment correlates to the disposable incomes of people and is dependant on purchasing power parity. Any gloom in the Indian / Global Economy would be disastrous to the functioning of the company. Any shifts in consumer spending and behaviours might outpace the ability of sectoral players to adapt.
- The products though highly remunerative in nature also demand high inputs especially Electricity and raw material. The raw material prices are volatile and may dent profits if there is any sudden surge in prices. So high energy expenditures and volatile commodity prices might make operations unviable from a cost perspective.
- The company has a beautiful debt free balance sheet however it is possible that during the course of simultaneous expansions in many countries at a time may result in high expenses for setup and marketing which may create pressure on the Balance Sheet.
- The company has a till date rules over the quality aspects of its products, any disturbance in product quality may disturb the fame and sales the company enjoys.

In a Nutshell

Founded in 1922, SH Kelkar is India's largest fragrance manufacturer and among the largest organised flavour manufacturers in the country. It is engaged in developing, manufacturing and marketing over 9,700 products fragrance and flavour products and ingredients. The Company's fragrance products and ingredients are used in a number of everyday consumer products. The It's flavours are used in baked goods, dairy products, beverages and pharmaceutical products. SH Kelkar's aggregate fragrance manufacturing capacity stood at 18,655 tonnes a year; the aggregate flavours manufacturing capacity stood at 1,164 tonnes a year as of 31st March 2016. SH Kelkar markets fragrances and flavours largely within India (domestic sales accounting for 63% of revenues). The Company generated 37% of revenues from exports in 2015-16. By providing the largest quantum of fragrances in India, the Company has emerged as an indirect driver and faithful proxy of the Indian economy. Today's the company is repositioning itself with a brand "Keva". It plans to emerge among the ten largest global fragrance companies within this decade and account for over 1% market share. It is stepping up to focus on fragrance business strengths and enhancing customer diversity & raising the MNC share of business. It is trying to rewrite its story to more countries apart from its current 52-country global footprint and focus on nine countries in the ASEAN and MENA regions. The able management, the expertise and the quality sustaining research may take the company to greater highs in coming future.

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Rating Interpretation

Buy : Expected to appreciate 20% or more over 12-months

Accumulate : Expected to appreciate 10% to 20% over 12-months

Trade Buy : Expected to appreciate more than 10% over 45-days

Reduce : Expected to depreciate up to 10% over 12-months

Sell : Expected to depreciate 10% or more over 12-months

Trade Sell : Expected to depreciate more than 10% over 45-days

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