

S H Kelkar and Co.

BSE SENSEX	S&P CNX
30,188	9,401
Bloomberg	SHKL IN
Equity Shares (m)	145
M.Cap.(INRb)/(USDb)	46.0 / 0.7
52-Week Range (INR)	362 / 201
1, 6, 12 Rel. Per (%)	0/-8/23
Avg Val, INRm	40
Free float (%)	43.1

Financials & Valuations (INR b)

Y/E Mar	2017	2018E	2019E
Net Sales	9.8	11.4	13.6
EBITDA	1.7	2.2	2.8
PAT	1.0	1.4	1.8
EPS (INR)	7.2	9.6	12.2
Gr. (%)	43.5	32.6	27.4
BV/Sh (INR)	56.1	63.0	71.7
RoE (%)	13.7	16.1	18.2
RoCE (%)	19.0	23.5	27.2
P/E (x)	42.9	32.4	25.4
P/BV (x)	5.5	4.9	4.3

Estimate change



TP change



Rating change



CMP: INR311

TP: INR367(+18%)

Buy

Results below estimates, impact temporary; Maintain Buy

Sharp decline in Fragrance business impacted growth in 4QFY17: SHKs

consolidated revenue de-grew 7% YoY to INR2,475m (est: INR2,844m).

Fragrance business de-grew by 15% YoY while Flavor business grew by 118% YoY for 4QFY17. EBITDA margins declined by 130bp to 14.9% mainly due to negative operating leverage despite gross margins improving by 60bp. EBITDA de-grew by 14% to INR370m on YoY basis. Tax rate was lower at 21% which led to PAT growing by 12.5% to INR274m on YoY basis. For FY17, revenue increased by 6% to INR9,805m while EBITDA margins improved by 70bp to 16.9%. Adj. PAT increased by 44% to INR1,048m mainly due to EBITDA margin expansion and lower interest payment at INR52m vs INR202m in FY16. Despite subdued performance, management indicated market share gain of 0.5%.

Domestic fragrance business to recover going ahead: In 4QFY17, domestic fragrance business declined by 12% on account of 1) domestic fragrance (excl. service income) declining by 8% impacted due to slowdown in new launches in FMCG companies and continuing impact of demonetization, 2) Decline in service income (contributing 4% to decline) from INR120m to INR40m mainly on account of destocking carried out by customers in view of GST. However, management indicated that fragrance business is seeing gradual recovery and 2HFY18 to see good recovery while service income is back to normal levels. Overseas fragrance business declined by 21% due to unfavorable currency movement (3% impact) and sluggish global environment.

Flavor business continues to show robust performance: In 4QFY17, flavor business grew by 118% to INR1,240m driven by domestic growth of 134% and overseas growth of 104%. The organic domestic business grew by 58%. The management guided that in long run company intends to grow at 25%.

Valuation and view: We believe that slowdown in fragrance business is temporary and remain confident about its structural growth. In view of some impact continuing in 1HFY18, we cut our earnings estimates by 5%/6% for FY18/FY19 and expect SHK to post revenue and PAT CAGR of 18% and 30% over FY17-19E. We maintain Buy with a target price of INR367 (30x FY19E EPS).

Consolidated - Quarterly Earning Model

Y/E March	FY16				FY17				(INR Million)		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	FY17	FY17	Var
									4QE		(%)
Net Sales	2,211	2,082	2,295	2,661	2,559	2,453	2,319	2,475	9,805	2,844	-13
YoY Change (%)	-	-	17.2	12.9	15.7	17.8	1.1	-7.0	6.0	7.0	
Total Expenditure	1,807	1,827	1,887	2,230	2,085	2,036	1,924	2,106	8,151	2,360	
EBITDA	404	255	407	431	473	416	395	370	1,654	483	-24
Margins (%)	18.3	12.3	17.7	16.2	18.5	17.0	17.1	14.9	16.9	17.0	
Depreciation	74	74	72	77	44	49	48	53	194	50	
Interest	72	73	44	14	19	22	2	10	53	2	
Other Income	19	23	18	45	32	29	19	40	120	20	
PBT before EO expense	278	131	310	385	442	375	364	346	1,526	451	-23
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0	
PBT	278	131	310	385	442	375	364	346	1,526	451	-23
Tax	83	61	92	141	167	132	110	71	480	149	
Rate (%)	29.8	46.4	29.6	36.7	37.7	35.1	30.2	20.7	31.4	33.0	
Minority Interest & Profit/Loss of Asso. C	0	0	0	0	0	0	0	0	0	0	
Reported PAT	195	70	218	244	275	243	254	274	1,047	302	-9
Adj PAT	195	70	218	244	275	243	254	274	1,047	302	-9
YoY Change (%)	-	-	378.3	16.5	41.3	246.0	16.5	12.5	44.0	16.6	
Margins (%)	8.8	3.4	9.5	9.2	10.8	9.9	11.0	11.1	10.7	10.6	

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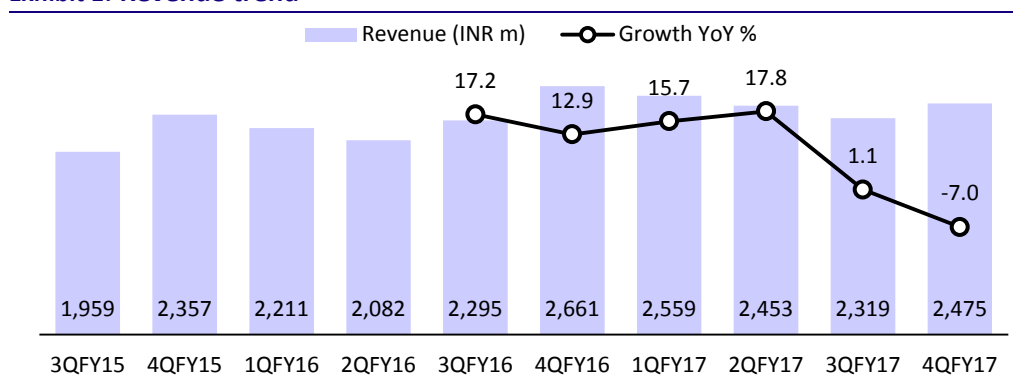
Investors are advised to refer through important disclosures made at the last page of the Research Report.

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Results below estimates

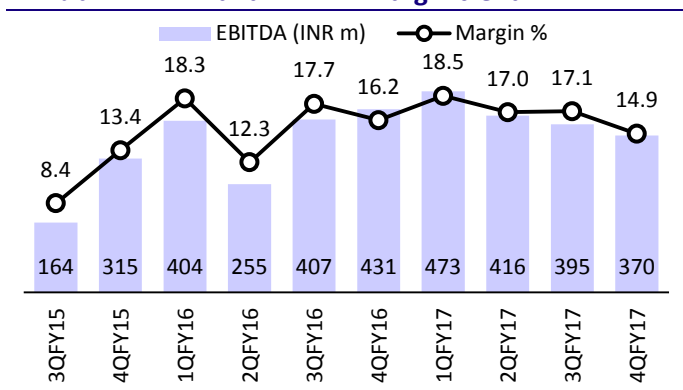
- SHKs consolidated revenue de-grew 7% YoY to INR2,475m (est: INR2,844m). Fragrance business de-grew by 15% YoY while Flavor business grew by 118% YoY for 4QFY17.
- EBITDA margins declined by 130bp to 14.9% mainly due to negative operating leverage despite gross margins improving by 60bp. EBITDA de-grew by 14% to INR370m on YoY basis.
- Tax rate was lower at 21% which led to PAT growing by 12.5% to INR274m on YoY basis.
- For FY17, revenue increased by 6% to INR9,805m while EBITDA margins improved by 70bp to 16.9%. Adj. PAT increased by 44% to INR1,048m mainly due to EBITDA margin expansion and lower interest payment at INR52m vs INR202m in FY16.
- Despite subdued performance, management indicated market share gain of 0.5% in FY17.

Exhibit 1: Revenue trend



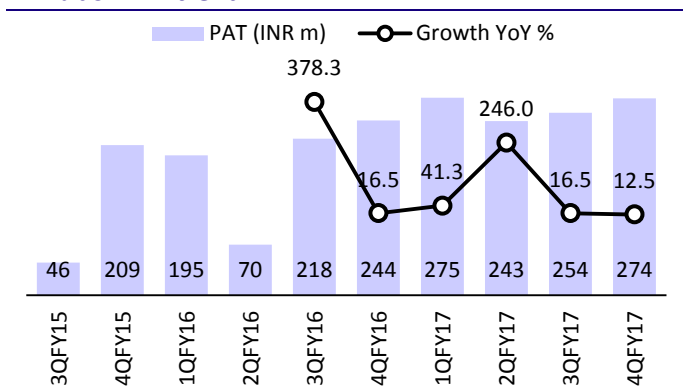
Source: MOSL, Company

Exhibit 2: EBITDA and EBITDA margin trend



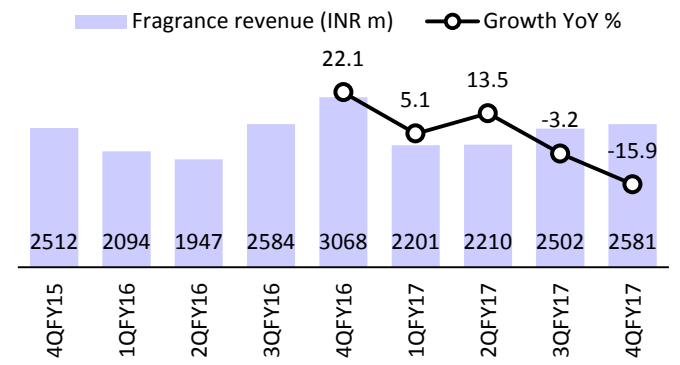
Source: MOSL, Company

Exhibit 3: PAT trend



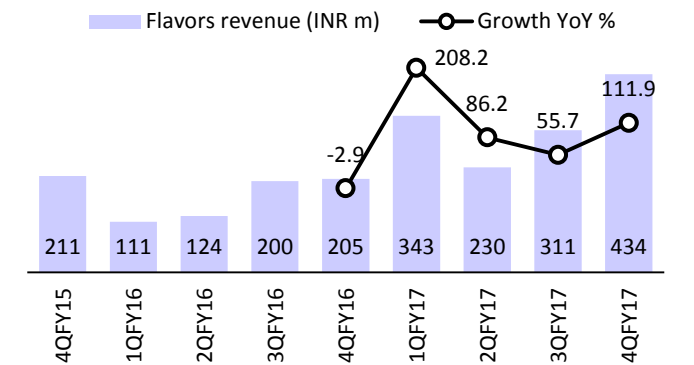
Source: MOSL, Company

Exhibit 4: Fragrance revenue trend



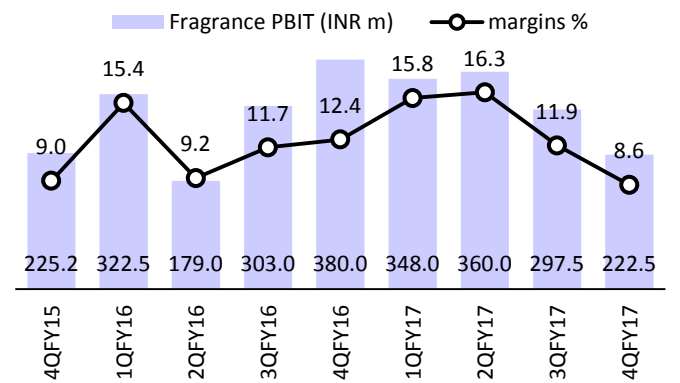
Source: MOSL, Company

Exhibit 5: Flavor revenue trend



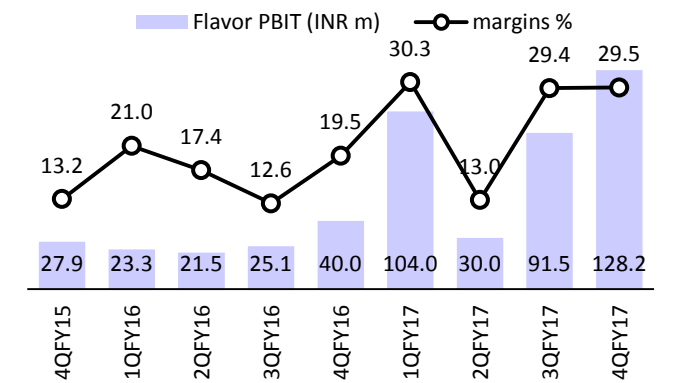
Source: MOSL, Company

Exhibit 6: Fragrance PBIT margin trend



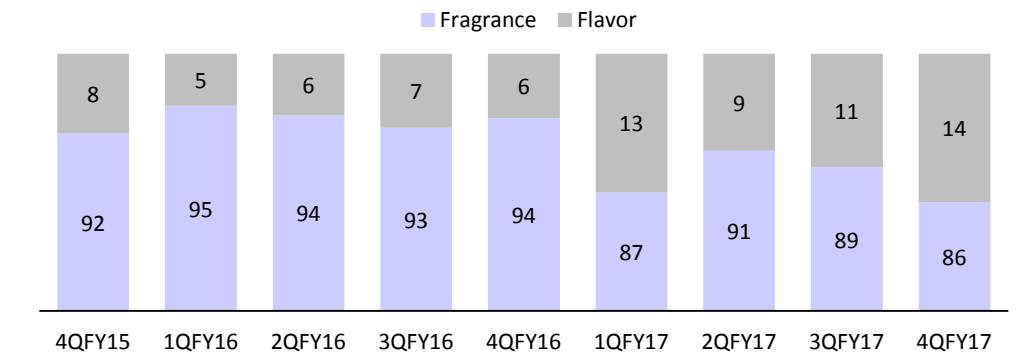
Source: MOSL, Company

Exhibit 7: Flavor PBIT margin trend



Source: MOSL, Company

Exhibit 8: Revenue mix



Source: MOSL, Company

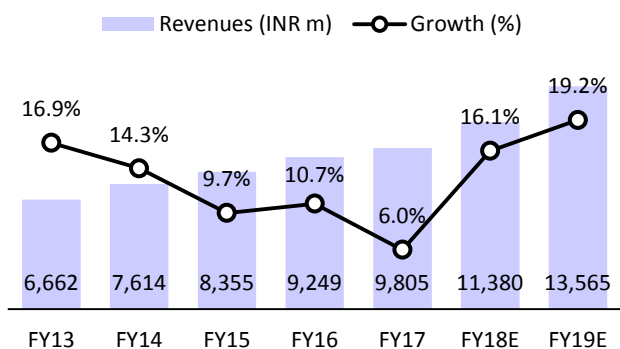
Valuation and view

We expect SHKL to surpass industry revenue growth due to ~40% wallet share in fast-growing domestic FMCG companies and entry into new categories. It is also expected to scale up its EBITDA margins to match with global peers (avg. 23% margins in CY15) on the back of corrective measures in exports and ingredients business. We believe current slowdown in domestic fragrance business is temporary and expect SHKL to record 18% revenue CAGR, 30% PAT CAGR over FY17–19E. This will lead to RoCE expanding from 19% in FY17 to 27% in FY19. We maintain Buy with a target price of INR367 (30x FY19E EPS).

Assumptions	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
Fragrance (INR m)	6285	7204	7763	8642	8568	9548	11146
Growth %		14.6	7.8	11.3	-0.9	11.4	16.7
Flavour (INR m)	366	410	607	587	1244	1831	2419
Growth %		11.8	48.2	-3.3	112.0	47.2	32.1

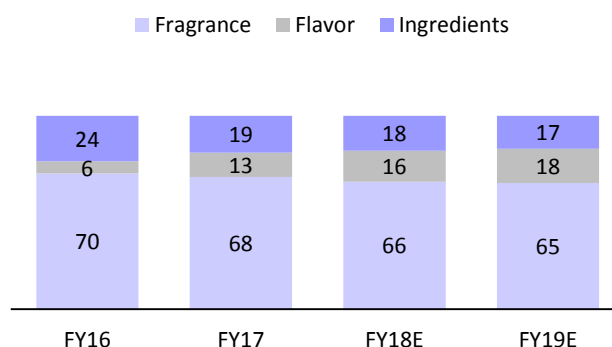
Story in charts

Exhibit 1: Revenue to post 18% CAGR over FY17-19E



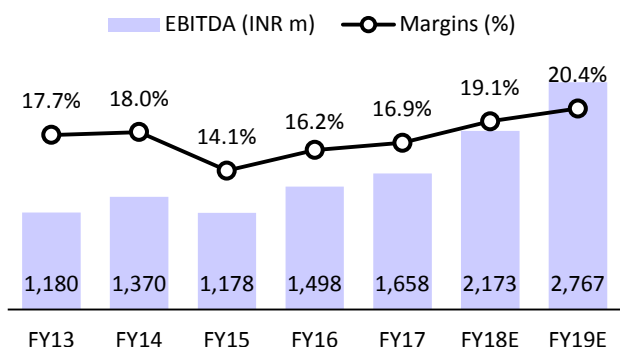
Source: MOSL, Company

Exhibit 2: Contribution of Flavor to increase



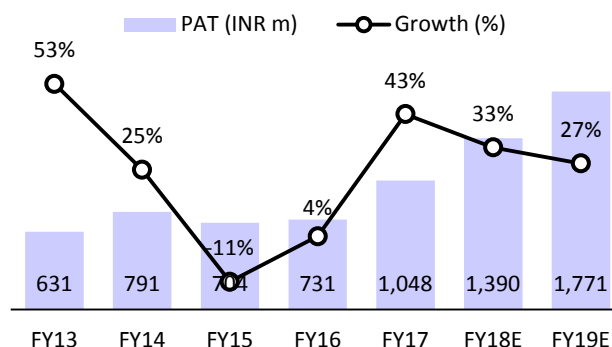
Source: MOSL, Company

Exhibit 3: EBITDA margins on uptrend



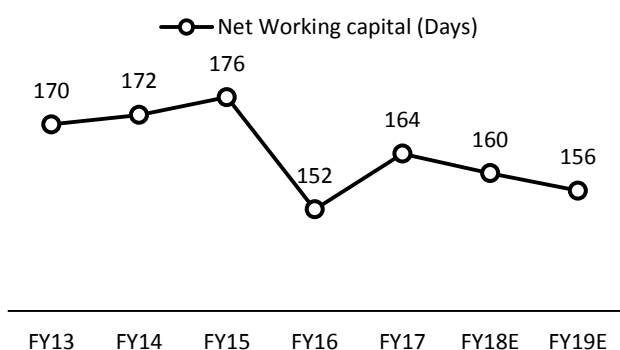
Source: MOSL, Company

Exhibit 4: PAT to record a CAGR of 30% over FY17-19E



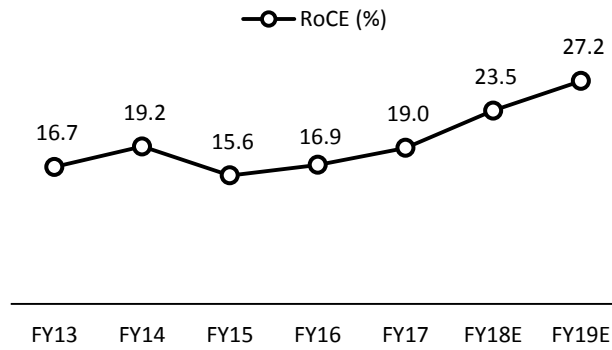
Source: MOSL, Company

Exhibit 5: Working capital days to gradually improve



Source: MOSL, Company

Exhibit 6: RoCE to improve to 27% by FY19E



Source: MOSL, Company

Financials and Valuations

Income Statement							(INR Million)		
Y/E March	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
Total Income from Operations	4,598	5,700	6,662	7,614	8,355	9,249	9,805	11,380	13,565
Change (%)	39.5	24.0	16.9	14.3	9.7	10.7	6.0	16.1	19.2
EBITDA	838	1,044	1,180	1,370	1,178	1,498	1,658	2,173	2,767
Margin (%)	18.2	18.3	17.7	18.0	14.1	16.2	16.9	19.1	20.4
Depreciation	146	173	173	188	293	297	194	211	290
EBIT	692	871	1,007	1,183	885	1,201	1,464	1,963	2,477
Int. and Finance Charges	104	278	218	175	185	202	52	26	0
Other Income	72	40	15	78	246	105	116	139	166
PBT bef. EO Exp.	659	633	805	1,085	945	1,103	1,528	2,075	2,643
EO Items	-194	0	-23	0	0	0	0	0	0
PBT after EO Exp.	465	633	782	1,085	945	1,103	1,528	2,075	2,643
Current Tax	128	222	250	328	286	446	459	685	872
Deferred Tax	-4	-33	-7	-33	-45	-74	20	0	0
Tax Rate (%)	26.5	29.9	31.0	27.1	25.5	33.8	31.4	33.0	33.0
Less: Minority Interest	27	32	-76	0	0	0	0	0	0
Reported PAT	315	412	616	791	704	731	1,048	1,390	1,771
Adjusted PAT	457	412	631	791	704	731	1,048	1,390	1,771
Change (%)	0.7	-10.0	53.3	25.3	-11.0	3.7	43.5	32.6	27.4
Margin (%)	9.9	7.2	9.5	10.4	8.4	7.9	10.7	12.2	13.1

Balance Sheet							(INR Million)		
Y/E March	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
Equity Share Capital	43	52	120	132	1,323	1,446	1,446	1,446	1,446
Total Reserves	1,168	2,640	4,077	4,669	3,682	5,714	6,671	7,659	8,919
Net Worth	2,837	3,713	4,720	4,810	5,097	7,161	8,117	9,105	10,365
Deferred Tax Liabilities	43	12	6	-19	-50	57	73	73	73
Total Loans	2,489	2,307	1,518	2,111	2,427	732	624	0	0
Capital Employed	5,566	6,031	6,244	6,902	7,474	7,949	8,814	9,178	10,438
Gross Block	3,202	3,451	3,655	4,233	4,573	4,976	5,860	6,195	6,702
Less: Accum. Deprn.	1,850	2,099	2,259	2,548	2,612	2,909	3,103	3,314	3,604
Net Fixed Assets	1,352	1,352	1,395	1,686	1,961	2,068	2,757	2,881	3,097
Goodwill on Consolidation	537	709	707	828	776	206	206	206	206
Capital WIP	226	278	432	503	105	181	75	290	333
Total Investments	8	334	410	2	0	354	497	497	497
Curr. Assets, Loans&Adv.	4,701	4,383	4,760	5,573	6,502	7,363	7,351	8,233	9,812
Inventory	2,274	2,316	2,254	2,788	3,175	3,352	3,502	3,935	4,556
Account Receivables	1,190	1,307	1,719	1,794	1,945	2,288	2,170	2,519	3,002
Cash and Bank Balance	443	237	332	415	759	822	555	475	699
Loans and Advances	794	523	456	576	622	901	1,124	1,305	1,556
Curr. Liability & Prov.	1,257	1,024	1,461	1,689	1,870	2,223	2,072	2,929	3,508
Account Payables	411	497	757	879	977	1,633	1,107	1,286	1,538
Other Current Liabilities	706	426	592	527	553	496	854	991	1,181
Provisions	141	102	112	283	340	93	111	652	789
Net Current Assets	3,444	3,359	3,299	3,885	4,632	5,141	5,279	5,305	6,304
Appl. of Funds	5,566	6,031	6,244	6,902	7,474	7,949	8,814	9,179	10,438

Financials and Valuations

Ratios

Y/E March	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
Basic (INR)									
EPS	3.5	3.1	4.8	6.0	5.3	5.1	7.2	9.6	12.2
Cash EPS	4.3	4.0	5.9	7.4	7.5	7.1	8.6	11.1	14.3
BV/Share	21.4	28.1	35.7	36.4	38.5	49.5	56.1	63.0	71.7
DPS	0.0	0.0	0.6	1.1	1.1	1.5	1.7	2.3	2.9
Payout (%)	3.5	1.1	15.6	22.2	25.6	35.7	28.9	28.9	28.9
Valuation (x)									
P/E				52.0	58.4	61.6	42.9	32.4	25.4
Cash P/E				42.0	41.3	43.8	36.2	28.1	21.8
P/BV				8.6	8.1	6.3	5.5	4.9	4.3
EV/Sales				5.6	5.1	4.9	4.6	3.9	3.3
EV/EBITDA				31.3	36.3	30.0	27.2	20.5	16.0
Dividend Yield (%)	0.0	0.0	0.2	0.4	0.4	0.5	0.6	0.7	0.9
FCF per share	-11.4	4.1	5.2	-0.5	3.0	4.3	1.5	5.8	3.9
Return Ratios (%)									
RoE	14.0	12.6	15.0	16.6	14.2	11.9	13.7	16.1	18.2
RoCE	16.9	16.0	16.7	19.2	15.6	16.9	19.0	23.5	27.2
Working Capital Ratios									
Asset Turnover (x)	0.8	0.9	1.1	1.1	1.1	1.2	1.1	1.2	1.3
Inventory (Days)	181	148	123	134	139	132	130	126	123
Debtor (Days)	89	79	88	81	80	84	75	75	75
Creditor (Days)	33	32	41	42	43	64	41	41	41
Leverage Ratio (x)									
Debt/Equity	0.9	0.6	0.3	0.4	0.5	0.1	0.1	0.0	0.0

Cash Flow Statement

(INR Million)

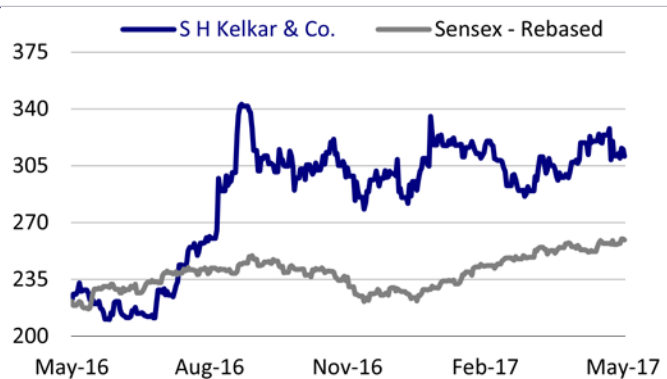
Y/E March	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
OP/(Loss) before Tax	463	630	785	1,088	945	1,206	1,528	2,075	2,643
Depreciation	146	173	173	188	293	294	194	211	290
Interest & Finance Charges	288	246	201	146	175	130	-64	-112	-166
Direct Taxes Paid	-185	-204	-259	-343	-285	-394	-480	-685	-872
(Inc)/Dec in WC	-1,855	-122	103	-729	-375	-374	-406	-105	-776
CF from Operations	-1,143	724	1,005	350	753	863	772	1,384	1,119
Others	14	9	26	-29	-136	1	228	0	0
CF from Operating incl EO	-1,130	733	1,031	321	617	864	1,001	1,384	1,119
(Inc)/Dec in FA	-374	-190	-344	-386	-219	-238	-778	-550	-550
Free Cash Flow	-1,504	543	687	-65	399	626	222	834	569
(Pur)/Sale of Investments	-1,020	-187	0	0	3	4	-143	0	0
Others	94	11	14	-211	17	-331	116	139	166
CF from Investments	-1,301	-366	-330	-597	-199	-565	-805	-411	-384
Issue of Shares	1,000	0	10	0	-38	1,956	0	0	0
Inc/(Dec) in Debt	2,325	-216	-259	527	322	-1,589	-108	-624	0
Interest Paid	-293	-253	-210	-161	-183	-162	-52	-26	0
Dividend Paid	0	-101	-114	0	-176	-441	-303	-402	-512
Others	-711	-3	-34	-6	0	0	0	0	0
CF from Fin. Activity	2,320	-573	-607	360	-75	-236	-463	-1,052	-512
Inc/Dec of Cash	-110	-206	94	84	344	63	-268	-80	224
Opening Balance	553	443	237	332	415	759	822	555	475
Closing Balance	443	237	332	415	759	822	555	475	699

Corporate profile

Company description

SH Kelkar (SHKL) is one of India's largest fragrance & flavor (F&F) companies with a market share of ~14% as of 2016. Its fragrance products are used as raw materials in personal & fabric care, skin & hair care, fine fragrance and household products, while flavor products are used in baked & dairy products, beverages and pharmaceuticals.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Mar-17	Dec-16	Mar-16
Promoter	57.0	57.6	56.7
DII	2.4	2.5	2.5
FII	17.4	17.4	14.0
Others	23.2	22.4	26.8

Note: FII Includes depository receipts Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Blackstone Capital Partners (Singapore) VI FDI Two Pte Ltd	17.5
T Rowe Price International Discovery Fund	2.3
Mondrian Emerging Markets Small Cap Equity Fund	1.6
Smallcap World Fund, Inc	1.3
First State Investments ICVC-Stewart Investors Asia Pacific Fubd	1.2

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Ramesh Vinayak Vaze	Managing Director
Kedar Ramesh Vaze	Whole Time Director & CEO
Deepthi Chandratre	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Amit Dalmia	Amit Dixit
Prabha Ramesh Vaze	Alpana Parida
Dalip Sehgal	Jairaj Manohar Purandare
Nitin Potdar.	Sangeeta Singh

*Independent

Exhibit 6: Auditors

Name	Type
B S R & Co LLP	Statutory

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY18	9.6	9.5	0.8
FY19	12.2	11.6	5.4

Source: Bloomberg

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