

Operationally better performance: Maintain BUY

SH Kelkar & Co Ltd (SHK) posted revenues of INR2,744mn with 16.1% YoY increase which was above our estimate of INR2,589mn. Revenue growth was mainly driven by new product and brand launch and value & volume growth in existing products. Overall domestic business grew by 9.8% (YoY) and Exports shown growth of 25.4%(YoY). Despite 97bps decline in gross margin due to change in product mix, EBITDA margin improved by 297bps, was 234bps higher than our estimate. Surge in margin due to adoption of Ind AS 116for lease – this led to lower rent exp by INR39mn. Adj EBITDA margin were up by 154bps. Adj. PAT came below our estimate at INR185mn (est INR235mn) due to higher finance and depreciation cost (Ind As adjustment). As per management, over the last few months the industry has been witnessing signs of stability in raw material supplies. Management believes that if this environment continues over the next few months, the raw material situation will fully normalize

Dominant player in domestic F&F market with diversified product portfolio

SHK is the largest domestic player with ~13% market share in Flavour and Fragrance market with ~23% market share in the domestic fragrances market and the company along with Givaudan and Firmenich control more than 60% market. The fragrance market is highly consolidated with the top 5 players controlling ~85% of the total market. F&F constitutes key components of a variety of consumer products and hence are critical raw metrical for FMCG companies. The sticky nature of the business thus acts as a moat for the company. Currently, the company has product basket of over 9,700 products, which they supply to 4,000 customers in the fragrance and flavours segment including long-term relationships with global MNCs (2% of revenue), as well as with domestic players. We believe, due to intensifying competition among FMCG companies, product innovation is expected to gain traction. The company's products, which are used as raw materials in many FMCG companies, thus will be a critical component of product success. SHK derived 15-20% of its revenue from products launched in past 2-3 years. Additionally, we believe entering into new categories would help the company register revenue CAGR FY19-21E of 10.4%.

Strategic shift in ingredients and exports business to drive margins

In the past, up until recently, the company has been conducting research and manufacturing activity of ingredients at the Netherlands facility through its subsidiary PFW Ingredients Ltd. This activity is very critical for the company as it forms the backbone of the F&F business. Total ingredients sales from the Netherlands facility stood at ~INR1.6bn (FY18).However, EBITDA margin of the business was negative as it operates from the high cost facility in the Netherlands. Strategically, SHKL has shifted production to its Mahad facility (part of VNCC acquisition) and continues with just R&D in the Netherlands. The Mahad facility was commissioned in sep 2018 and is currently operating at optimum utilization levels. SHKL will also focus on requirements for in-house consumption with incremental R&D spends. By shifting production to India (Mahad), we expect 100bps of improvement in gross margins. Additionally, low labour costs and operating expenses would also result in higher EBITDA margins going ahead. We expect the company to improve its EBITDA margins to15% in the near term, and gradually take it to 18-20% levels over the next 3-5 years.

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook **Positive**

Stock

CMP (Rs)	118
Target Price (Rs)	194
BSE code	539450
NSE Symbol	SHK
Bloomberg	SHKL IN
Reuters	SHKE.BO

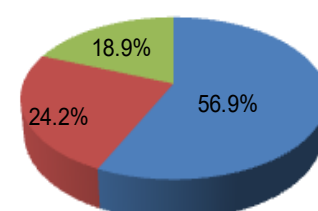
Key Data

Nifty	10,741.
52 Week H/L (Rs)	248/105
O/s Shares (Mn)	145
Market Cap (Bn)	17
Face Value (Rs)	10

Average volume

3 months	1,17,913
6 months	2,60,145
1 year	2,01,326

Share Holding Pattern (%)



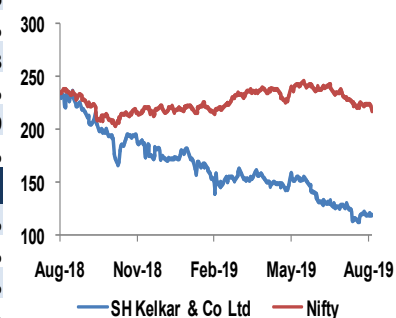
■ Promoter ■ Institutions ■ Others

Key Financials					
YE March (Rs. mn)	FY17	FY18	FY19	FY20E	FY21E
Net Sales	9,805	10,480	10,486	11,506	12,731
Growth %	6%	7%	0%	10%	11%
EBIDTA	1,669	1,635	1,337	1,834	2,205
Growth%	10%	-2%	-18%	37%	20%
Net Profit	1,048	942	885	1,088	1,338
Growth %	43%	-10%	-6%	23%	23%
Diluted EPS	7	7	6	8	9
Growth %	43%	-10%	-6%	23%	23%

Profitability & Valuation					
EBIDTA (%)	17%	16%	13%	16%	17%
NPM (%)	11%	9%	8%	9%	11%
RoE (%)	14%	13%	10%	12%	14%
RoCE (%)	18%	16%	11%	15%	17%
P/E (x)	16.0	17.8	19.0	15.4	12.5
EV/EBITDA (x)	10.1	11.1	14.9	10.6	8.7
P/BV (x)	2.1	2.0	1.9	1.8	1.6

Source: Company, BP Equities Research

Relative Price Chart



Research Analyst

Nikhil Shetty

nikhilshetty@bpwealth.com
022-61596408

SH Kelkar & Co Ltd Q1FY20 Quarterly Result

YE March (Rs. mn)	Q1 FY20	Q4 FY19	Q-o-Q change %	Q1 FY19	Y-o-Y change %
Net Sales	2,715	2,686	1.1%	2,360	15.1%
Other Operating Income	29	3		4	
Total Revenue	2,744	2,689	2.0%	2,364	16.1%
Less:					
Raw Material Cost	1,561	1,565	(0.2%)	1,322	18.1%
Operating & Manufacturing Expenses	399	582	(31.6%)	422	(5.5%)
Employee Cost	321	301	6.5%	291	10.3%
Total Expenditure	2,280	2,448	(6.9%)	2,035	12.1%
EBIDTA	464	241	92.7%	329	40.8%
Less: Depreciation	121	79	52.9%	68	79.3%
EBIT	342	161	112.3%	262	30.8%
Less: Interest	70.0	60.6	15.5%	15.1	363.6%
Add: Other income	14	120		33	
Profit before tax	286	220	30.0%	280	2.4%
Adjusted Profit before Tax	286	220	30.0%	280	2.4%
Less: Total Tax	96	19	417.7%	100	(3.7%)
Profit After Tax	190	201	(5.8%)	180	5.7%
Minority Interest	(5)	0		0	
Shares of Associates	0	0		0	
Adjusted Profit After Tax	185	201	(8.4%)	180	2.8%
Diluted EPS (Rs.)	1.3	1.4	(8.4%)	1.2	2.8%
Adjusted Diluted EPS	1.3	1.4	(8.4%)	1.2	2.8%
Diluted No of Share (mn)	144.6	144.6		144.6	
Margin Analysis %			Change in bps	Change in bps	
EBIDTA Margin %	16.9%	8.9%	795	13.93%	297
EBIT Margin %	12.5%	6.0%	648	11.1%	140
NPM %	6.9%	7.5%	(58)	7.6%	(68)
Effective Tax Rate %	33.7%	8.5%	2,521	35.8%	(212)

Source: Company, BP Equities Research

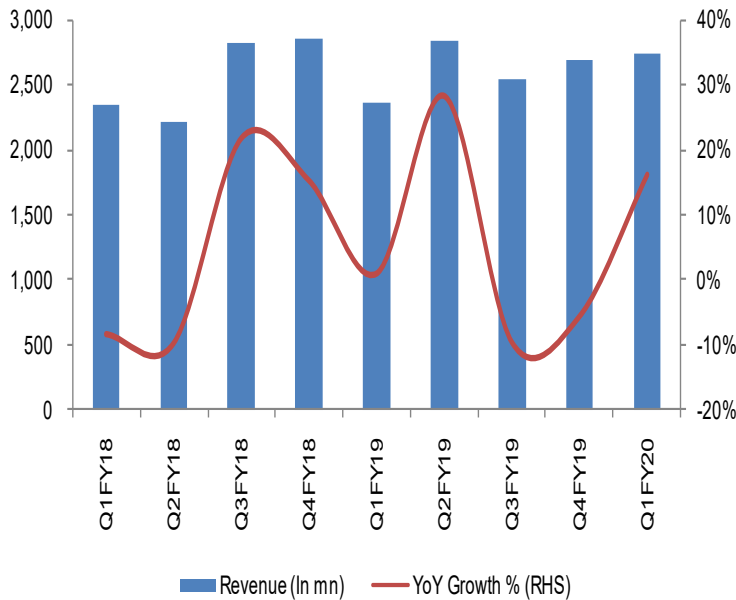
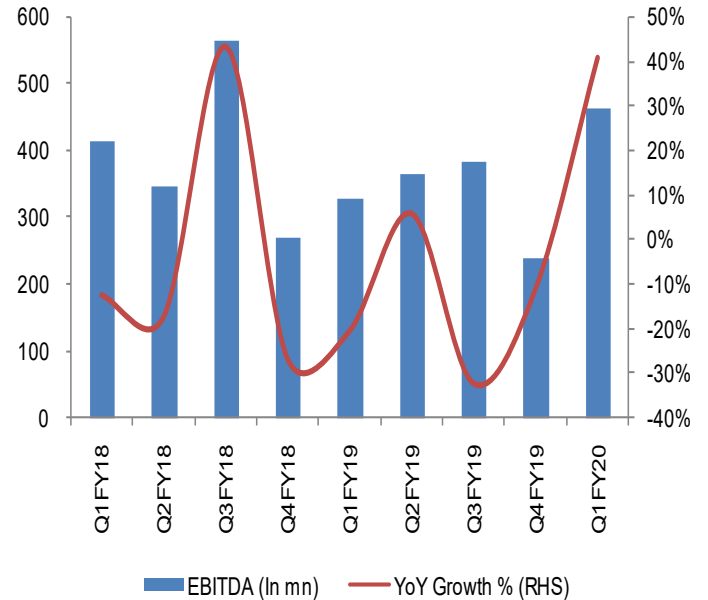
Valuation & Outlook

We believe SHK would be a major beneficiary of increasing demand from FMCG companies specifically present in personal care, packaged foods & dairy products. We expect the company to post 10.4% revenue CAGR over FY19-21E led by steady growth in end user industry. We forecast 417bps of EBITDA margin expansion over FY19-21E driven by (a) shift in composition of exports in favor of high value added items and (b) shift in production base of ingredient business from high cost region of the Netherlands to the low cost region in India and (c) normalization of Input cost increase. We estimate ~23% PAT CAGR on the back of better operational performance. Considering the expected strong growth in profitability, healthy balance sheet, improving return ratios and good corporate governance practices, we are optimistic about the long-term growth prospects of the company. We maintain our BUY rating on the stock with a target price of INR 194 (P/E of 21x of its FY21E earnings).

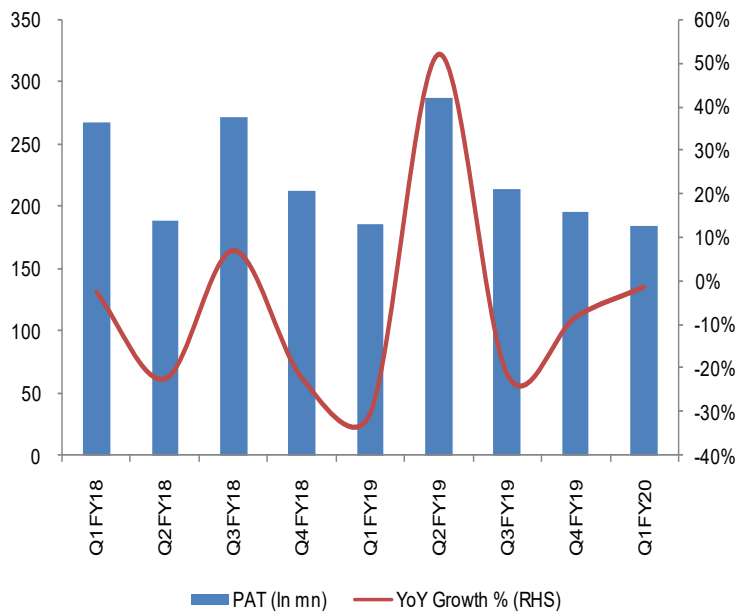
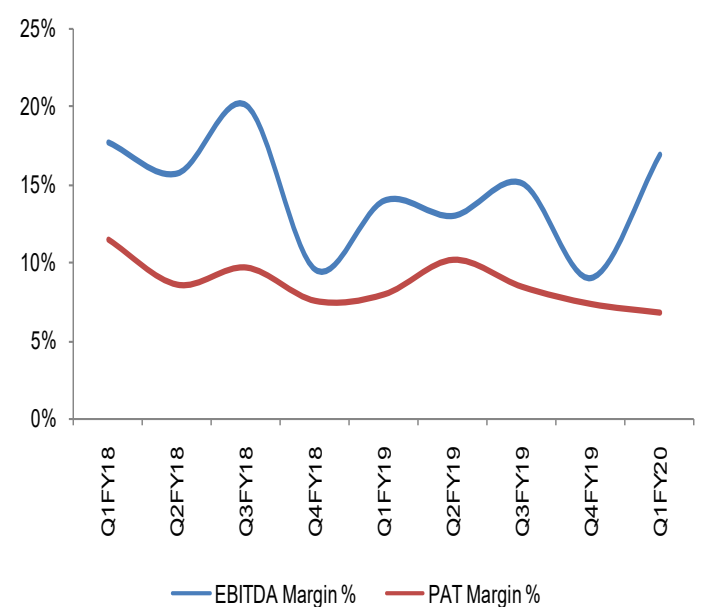
Revenue came above our estimates led by strong revenue growth from both segments

Adj. PAT came below our estimate due to higher interest and depreciation cost (Ind As Adjustment INR 42.5mn).

EBITDA margins came at 16.9% with 297bps improvement (est 14.6%), above our estimate mainly healthy operational performance and partially due to benefit of Ind As adjustment (INR39mn).

Revenue grew by 16.1% YoY

EBITDA surged by 40.8% YoY


Source: Company, BP Equities Research

PAT shown growth of 2.8% YoY

EBITDA/ PAT margin trend


Source: Company, BP Equities Research

**Segment wise Performance**

INR in Mn	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Revenue									
Flavours	332	266	272	277	247	282	276	266	280
YoY Growth %	-7%	-1%	-13%	-36%	-26%	6%	1.5%	-4.1%	14%
Fragrance	2,187	1,943	2,546	2,550	2,113	2,539	2,269	2,420	2,435
YoY Growth %	-12%	-27%	2%	-1%	-3%	31%	-10.9%	-5.1%	15%
EBIT									
Flavours	63	42	69	37	39	23	43	50	37
YoY Growth %	-40%	24%	-24%	-71%	-39%	-46%	-38%	35%	-4%
Fragrance	365	311	396	327	295	366	366	274	356
YoY Growth %	5%	-13%	33%	47%	-19%	18%	-7.4%	-16.3%	21%
EBIT Margin %									
Flavours	19%	16%	25.5%	13%	16%	8%	15%	19%	13%
Fragrance	17%	16%	15.5%	13%	14%	14%	16%	11%	15%
Revenue Contribution in %									
Flavours	13%	12%	10%	10%	10%	10%	11%	10%	10%
Fragrance	87%	88%	90%	90%	90%	90%	89%	90%	90%
EBIT Contribution in %									
Flavours	15%	12%	15%	10%	12%	6%	10%	15%	9%
Fragrance	85%	88%	85%	90%	88%	94%	90%	85%	91%

Source: Company, BP Equities Research



Profit & Loss A/c					
YE March (INR. mn)	FY17	FY18	FY19	FY20E	FY21E
Revenue	9,805	10,251	10,436	11,506	12,731
<i>Growth %</i>	6.0%	4.5%	1.8%	10.3%	10.6%
Total Revenue	9,805	10,251	10,436	11,506	12,731
Less:					
Raw Material Consumed	5,176	5,444	5,713	6,103	6,651
Employee Cost	1,225	1,252	1,281	1,307	1,372
Other Expenses	1,736	1,920	2,105	2,262	2,503
Total Operating Expenditure	8,136	8,616	9,099	9,672	10,526
EBITDA	1,669	1,635	1,337	1,834	2,205
<i>Growth %</i>	10.4%	-2.0%	-18.3%	37.2%	20.2%
Less: Depreciation	194	238	312	333	355
EBIT	1,475	1,397	1,025	1,501	1,849
<i>Growth %</i>	21.4%	-5.3%	-26.6%	46.4%	23.2%
Interest Paid	62	53	156	161	148
Non-operating Income	116	216	279	208	197
Extraordinary Income	0	(129)	0	0	0
Profit Before tax	1,528	1,432	1,149	1,548	1,899
Tax	480	506	270	465	570
Net Profit	1,048	942	880	1,088	1,338
Adjusted Profit	1,048	1,070	880	1,088	1,338
Reported Diluted EPS Rs	7.2	6.5	6.1	7.5	9.3
<i>Growth %</i>	43.5%	-10.1%	-6.1%	23.0%	23.0%
Adjusted Diluted EPS Rs	7.2	7.4	6.1	7.5	9.3
<i>Growth %</i>	43.5%	2.1%	-17.8%	23.6%	23.0%

Source: Company, BP Equities Research

Cash Flows (Consolidated)					
YE March (Rs. Mn)	FY17	FY18	FY19	FY20E	FY21E
PBT	1,528	1,432	1,149	1,548	1,899
Depreciation	194.4	238.4	311.5	333.9	356.3
Interest & Finance Charges	51.6	39.7	(94.0)	(77.0)	(94.0)
Other Adjust	(39.9)	(103.4)	0.0	0.0	0.0
Direct Taxes Paid	(462.9)	(360.7)	(270.0)	(446.4)	(550.6)
(Inc)/Dec in WC	(247.6)	(212.3)	(699.0)	(310.1)	(577.5)
Net Cash Generated From Operations	1,023.4	1,033.3	397.0	988.4	969.6
(Inc)/Dec in Fixed Assets	(381.3)	(1,207.6)	(1,192.3)	(400.0)	(400.0)
Free Cash Flow	642.1	(174.3)	(795.3)	588.4	569.6
(Pur)/Sale of Investments	(686.6)	(465.9)	(4.0)	0.0	0.0
Others	29.6	37.3	234.0	246.0	268.0
Net Cash Flow from/(used in) Investing Activities	(1,038.3)	(1,636.2)	(962.3)	(154.0)	(132.0)
Inc/(Dec) in Total Loans	(101.4)	925.6	1,697.0	(250.0)	(250.0)
Inc/(Dec) in Equity	0.0	0.0	0.0	0.0	0.0
Dividend Paid	0.0	(304.7)	(256.0)	(312.5)	(385.4)
Tax Paid on Dividend				0.0	0.0
Other Financing Activities	(6.5)	(304.8)	(567.0)	(7.0)	(7.0)
Less: Interest Paid	(50.8)	(39.3)	(139.5)	(160.7)	(147.7)
Net Cash Flow from Financing Activities	(158.7)	276.8	734.5	(730.2)	(790.1)
Others	(94.1)	10.0	1.2	0.0	0.0
Net Inc/Dec in cash equivalents	(267.7)	(316.1)	170.4	104.2	47.5
Opening Balance	822.3	554.6	238.5	408.9	513.1
Closing Balance Cash and Cash Equivalents	554.6	238.5	408.9	513.1	560.6

Source: Company, BP Equities Research



Balance Sheet (Consolidated)					
YE March(Rs. mn)	FY17	FY18	FY19	FY20E	FY21E
Liabilities					
Equity Capital	1,446	1,446	1,446	1,446.2	1,446
Reserves & Surplus	6,671	7,126	7,187	7,928.2	8,908
Equity	8,117	8,572	8,634	9,374.4	10,354
Preference Share Capital	0	0	0	0.0	0
Net Worth	8,117	8,572	8,634	9,374.4	10,354
Minority Interest	0	0	108	108.1	108
Others	51	57	(47)	(47.4)	(47)
Total Loans	624	1,643	3,340	3,089.7	2,840
Capital Employed	8,792	10,272	12,034	12,524.8	13,255
Assets					
Gross Block	3,459	4,320	5,561	5,961	6,361
Less: Depreciation	495	945	1,256	1,590	1,946
Net Block	2,964	3,376	4,305	4,371	4,415
Capital WIP	24	356	154	154	154
Investments	620	640	493	542	596
Other Non Current Assets	103	60	46	0	0
Intangible Assets	50	246	398	398	398
Others - A	0	1,092	1,097	1,097	1,097
Current Assets					
Inventories	3,502	3,480	3,739	4,123	4,562
Sundry Debtors	2,170	2,766	2,845	3,136	3,470
Cash and Bank Balance	555	239	409	513	561
Current Investments	497	16	15	15	15
Loans and Advances	158	399	571	630	697
Other Current Assets	90	86	123	136	150
Total Current Assets	6,971	6,985	7,703	8,561	9,469
Less: Current Liabilities & Provisions					
Sundry Creditors	1,107	1,556	1,343	1,695	1,876
Provisions	218	384	101	111	123
Other Current Liabilities	615	543	718	792	876
Total Current Liabilities & Provisions	1,940	2,483	2,162	2,598	2,875
Capital Applied	8,792	10,272	12,034	12,525	13,255

Source: Company, BP Equities Research

Source: Company, BP Equities Research

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

We analysts and the authors of this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer (s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation (s) or view (s) in this report. Analysts aren't registered as research analysts by FINRA and might not be an associated person of the BP Equities Pvt. Ltd. (Institutional Equities).

General Disclaimer

This report has been prepared by the research department of BP EQUITIES Pvt. Ltd, is for information purposes only. This report is not construed as an offer to sell or the solicitation of an offer to buy or sell any security in any jurisdiction where such an offer or solicitation would be illegal.

BP EQUITIES Pvt. Ltd have exercised due diligence in checking the correctness and authenticity of the information contained herein, so far as it relates to current and historical information, but do not guarantee its accuracy or completeness. The opinions expressed are our current opinions as of the date appearing in the material and may be subject to change from time to time. Prospective investors are cautioned that any forward looking statement are not predictions and are subject to change without prior notice.

Recipients of this material should rely on their own investigations and take their own professional advice. BP EQUITIES Pvt. Ltd or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. BP EQUITIES Pvt. Ltd. or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

BP EQUITIES Pvt. Ltd and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This report is not directed to or intended for display, downloading, printing, reproducing or for distribution to or use by any person in any locality, state and country or other jurisdiction where such distribution, publication or use would be contrary to the law or regulation or would subject to BP EQUITIES Pvt. Ltd or any of its affiliates to any registration or licensing requirement within such jurisdiction.

Corporate Office:

4th floor,
Rustom Bldg,
29, Veer Nariman Road, Fort,
Mumbai-400001
Phone- +91 22 6159 6464
Fax-+91 22 6159 6160
Website- www.bpwealth.com

Registered Office:

24/26, 1st Floor, Cama Building,
Dalal street, Fort,
Mumbai-400001
BP Wealth Management Pvt. Ltd.
CIN No: U67190MH2005PTC154591
BP Equities Pvt. Ltd.
CIN No: U67120MH1997PTC107392