

**Estimate changes**

**TP change**

**Rating change**


Bloomberg	SHKL IN
Equity Shares (m)	141
M.Cap.(INRb)/(USD\$b)	16.9 / 0.2
52-Week Range (INR)	169 / 101
1, 6, 12 Rel. Per (%)	6/-9/-41
12M Avg Val (INR M)	24

**Financials & Valuations (INR b)**

Y/E Mar	2019	2020E	2021E	2022E
Net Sales	10.4	11.4	15.1	16.9
EBITDA	1.3	1.7	2.5	3.0
EBITDAM %	12.7	15.1	16.7	17.5
NP (INRm)	0.9	0.8	1.3	1.5
EPS (INR)	6.1	5.6	9.0	10.8
EPS Gr. (%)	-13.4	-7.8	59.9	19.6
BV/Sh. (INR)	59.7	58.8	64.6	71.5

**Ratios**

Net D:E	0.2	0.2	0.3	0.2
RoE (%)	10.3	9.4	14.6	15.9
RoCE (%)	11.6	11.1	17.1	18.9

**Valuations**

P/E (x)	19.6	21.3	13.3	11.1
P/BV (x)	2.0	2.0	1.9	1.7
EV/EBITDA (x)	15.4	11.1	7.8	6.4
EV/Sales (x)	1.9	1.7	1.3	1.1

**Shareholding pattern (%)**

As On	Dec-19	Sep-19	Dec-18
Promoter	57.5	57.5	56.7
DII	6.5	6.5	3.3
FII	20.0	19.9	24.2
Others	16.0	16.1	15.8

FII Includes depository receipts

**CMP: INR120**
**TP: INR 162(+35%)**
**Buy**
**Growth picks up; Raw material pricing eases**

- SH Kelkar's (SHKL) 3QFY20 operating performance was driven by improved demand in the Fragrances business (~90% of revenue). We expect growth momentum to be driven by demand pick-up in the underlying industry.
- Albeit the delay in CFF consolidation, we cut our earnings estimates for FY20 and increase estimates for FY21 on account of better demand outlook and easing RM pricing pressure. Reiterate **Buy**.

**Growth picks up in Fragrances; Flavors biz remains subdued**

- **3QFY20 performance:** Revenue grew 13% YoY (v/s est. +30% YoY) to INR2,900m. EBITDA increased 8% YoY to INR431m (v/s est. INR492m) with margin contracting 75bp YoY to 14.9% (v/s est. 14.8%). Adj. PAT was up 20% YoY at INR256m (v/s est. INR273m). However, SHKL reported net loss of INR109m (v/s INR214m profit in 3QFY19) owing to one-time exceptional expense of INR365m on impairment of PPE and other cost related to the shutdown of a research facility in the Netherlands.
- **Fragrances business picks up:** Fragrances biz grew 14% YoY to INR2,595m, largely driven by growth in the domestic segment (+22% YoY), while the overseas segment remained muted at 1%. With growth in the underlying industry picking up, management has guided for double-digit growth across domestic and overseas markets, largely driven by continued traction with new and existing customers.
- **Flavors business remains muted:** Flavors biz grew 1.6% YoY to INR281m (domestic +5% YoY, overseas flat YoY). For 9MFY20, flavors biz (~10% of revenue) remained muted. Management has guided for performance improving, supported by both domestic and overseas segments.

**Key management commentary highlights:** (a) Raw material environment has stabilized in global and domestic markets. Management is confident of sustainable margin improvement going ahead. (b) CFF consolidation expected in 2HFY20 has been deferred and the same is expected in 1QFY21.

**Valuation and view**

- We were building in CFF consolidation in 2HFY20, which has been deferred by the management to 1QFY21E. We, thus, cut our revenue/PAT estimates by 8%/ 14% for FY20E while increasing earnings estimate for FY21E (+7%) on account of easing raw material pricing scenario.
- We expect revenue/PAT CAGR of 17%/20% over FY19-22E, partly driven by CFF consolidation, better RM pricing environment leading to gross margin improvement and improved demand dynamics in the domestic market. We value the stock at 18x FY21E consol. earnings of INR9/share. Maintain **Buy** with TP of INR162/share.

## Consolidated - Quarterly Earning Model

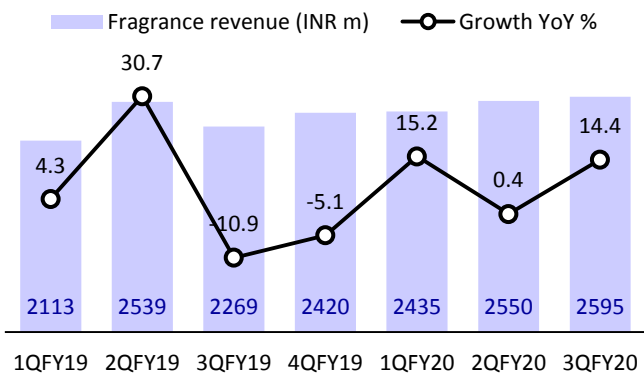
Y/E March	FY19				FY20E				FY19	FY20E	3QE	Var %
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
<b>Net Sales</b>	<b>2,374</b>	<b>2,845</b>	<b>2,565</b>	<b>2,697</b>	<b>2,744</b>	<b>2,787</b>	<b>2,900</b>	<b>3,008</b>	<b>10,481</b>	<b>11,438</b>	<b>3,334</b>	<b>-13%</b>
YoY Change (%)	1.3	28.2	-9.4	-5.4	15.6	-2.0	13.1	11.5	2.3	9.1	30.0	
Total Expenditure	2,035	2,468	2,165	2,448	2,280	2,417	2,469	2,550	9,115	9,716	2,842	
<b>EBITDA</b>	<b>340</b>	<b>377</b>	<b>400</b>	<b>249</b>	<b>464</b>	<b>369</b>	<b>431</b>	<b>458</b>	<b>1,366</b>	<b>1,722</b>	<b>492</b>	<b>-12%</b>
Margins (%)	14.3	13.3	15.6	9.2	16.9	13.3	14.9	15.2	13.0	15.1	14.8	
Depreciation	68	76	89	79	121	131	137	132	312	522	125	
Interest	15	19	45	61	70	71	71	69	140	281	70	
Other Income	23	50	50	111	14	19	21	29	234	84	65	
<b>PBT before EO expense</b>	<b>280</b>	<b>333</b>	<b>316</b>	<b>220</b>	<b>286</b>	<b>186</b>	<b>245</b>	<b>286</b>	<b>1,149</b>	<b>1,003</b>	<b>362</b>	<b>-32%</b>
Extra-Ord expense	0	0	0	0	0	0	365	0	0	-365	0	
<b>PBT</b>	<b>280</b>	<b>333</b>	<b>316</b>	<b>220</b>	<b>286</b>	<b>186</b>	<b>-119</b>	<b>286</b>	<b>1,149</b>	<b>638</b>	<b>362</b>	
Tax	100	49	103	19	96	36	-7	71	270	196	85	
Rate (%)	35.8	14.7	32.5	8.5	33.7	19.5	-	24.8	23.5	78	23.5	
Minority Interest & Profit/Loss of Asso. Cos.	-1	-4	-1	6	5	-5	-4	12	-6	9	4	
<b>Reported PAT</b>	<b>181</b>	<b>288</b>	<b>214</b>	<b>196</b>	<b>185</b>	<b>154</b>	<b>-109</b>	<b>203</b>	<b>885</b>	<b>433</b>	<b>273</b>	
<b>Adj PAT</b>	<b>181</b>	<b>288</b>	<b>214</b>	<b>196</b>	<b>185</b>	<b>154</b>	<b>256</b>	<b>203</b>	<b>885</b>	<b>798</b>	<b>273</b>	<b>-6%</b>
YoY Change (%)	-32.6	52.8	-36.7	-15.2	2.3	-46.5	19.6	3.7	-13.7	-9.8	27.5	
Margins (%)	7.6	10.1	8.3	7.3	6.7	5.5	8.8	6.7	8.4	7.0	8.2	

## Management commentary highlights

- **Raw material exposure to China and impact of Coronavirus** – SHKL sources 30% of its raw material from China. However, on account of adequate inventory position for 4QFY20, management doesn't see any significant impact of the Coronavirus led lockdown in China currently. Further, management will review the situation by end-Feb'20 to gauge the impact (if any) for the coming quarters.
- **Capacity utilization:** Operation at Mahad facility has ramped up and the facility now operates at 80% capacity utilization. Blended capacity utilization across other facilities is 50%.
- **Working capital cycle:** Stabilizing market, easing raw material pressure and improved liquidity condition has led to improved working capital cycle in 3QFY20.
- **On debt levels:** In 3QFY20, net debt reduced by INR970m. Management has guided for INR200-250m per quarter of debt reduction.
- **On Industrial segment:** The recently added industrial segment is doing well for the company and is expected to generate INR100m in revenue for FY20. Management believes that the segment could be an INR2b opportunity in the future.
- **FY21E revenue outlook:** The company has guided for double-digit growth and 17-18% EBITDA margin in FY21. The growth will largely be driven by improved product mix, strong launch pipeline and growth in the underlying industry.

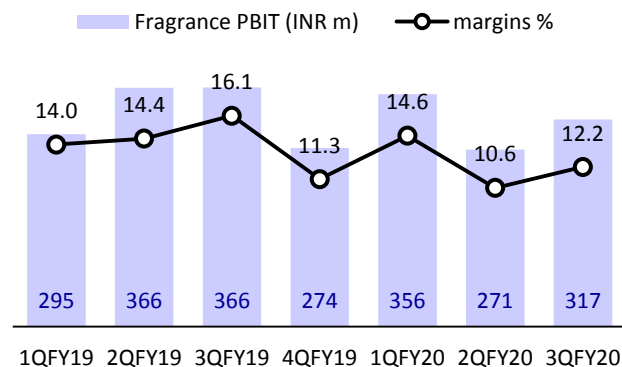
## Key Exhibits

**Exhibit 1: Fragrance biz revenue grew 14% YoY in 3QFY20**



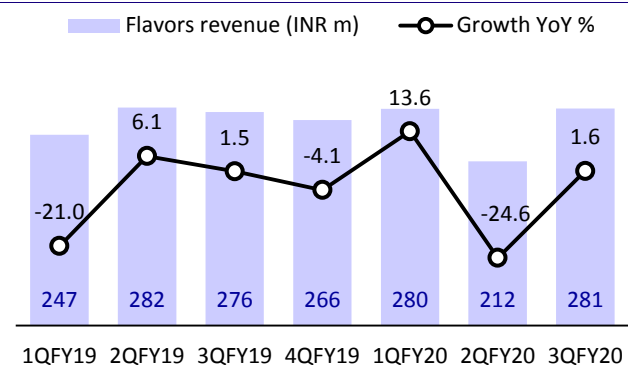
Source: MOFSL, Company

**Exhibit 2: EBIT margin improved sequentially**



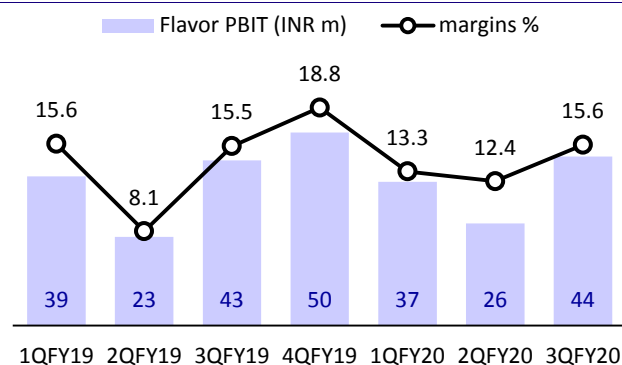
Source: MOFSL, Company

**Exhibit 3: Flavors biz remained muted**



Source: MOFSL, Company

**Exhibit 4: Operating performance improves for fragrance biz**



Source: MOFSL, Company

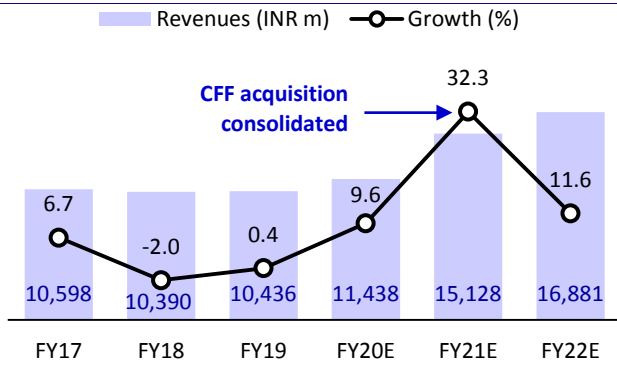
## Valuation view

### Growth momentum likely to continue, raw material pressure easing

- We were building in CFF consolidation in 2HFY20, which has been deferred by the management to 1QFY21E. We, thus, cut our revenue/PAT estimates by 8%/14% for FY20E while increasing our earnings estimate for FY21E (+7%) on account of the easing raw material pricing scenario.
- With recent organizational restructuring to optimize operational performance (employee restructuring and shutdown of the Netherlands facility) and subsequent ramp-up of the Mahad facility, operating leverage is likely to kick in. This coupled with management's guidance of double-digit growth in demand and easing raw material pricing scenario, we expect SHKL to deliver good performance going ahead.
- We expect revenue/PAT CAGR of 17%/20% over FY19-22E partly driven by CFF consolidation, benign raw material prices leading to gross margin improvement and improving demand dynamics. We value the stock at 18x FY21E consol. earnings of INR9/share. Maintain **Buy** with TP of INR162/share.

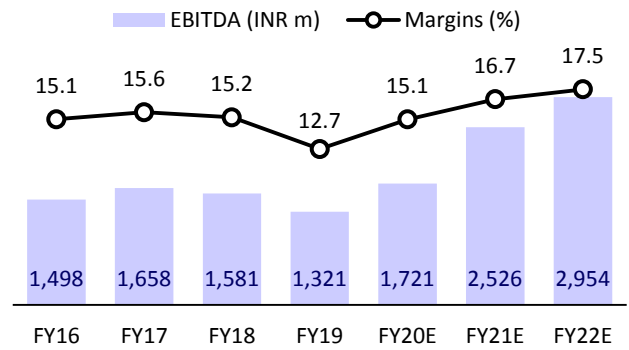
Stories in chart

Exhibit 5: Expect revenue CAGR of 17% over FY19-22



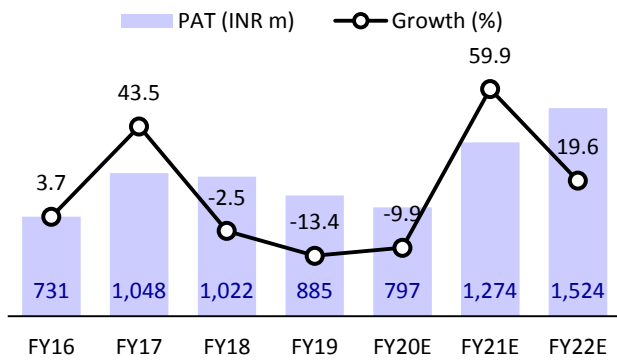
Source: MOFSL, Company

Exhibit 6: Margins likely to expand



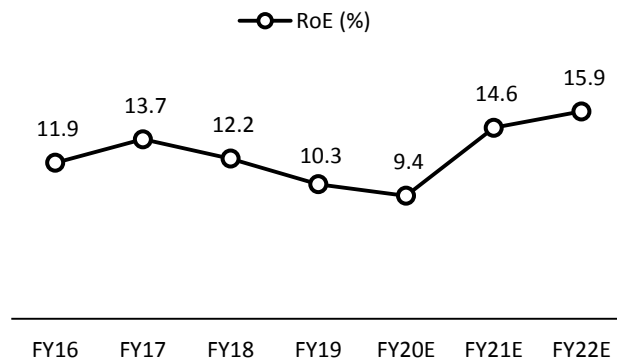
Source: MOFSL, Company

Exhibit 7: Expect adj. PAT CAGR of 20% over FY19-22



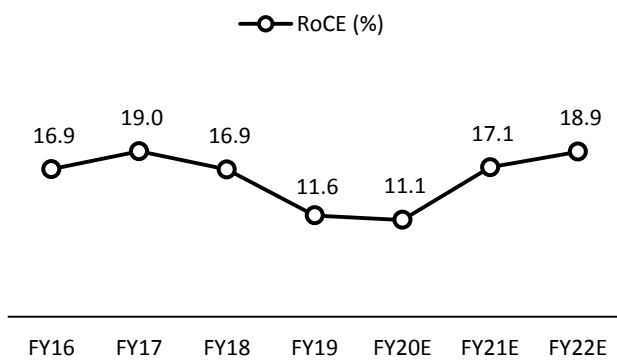
Source: MOFSL, Company

Exhibit 8: RoE trend



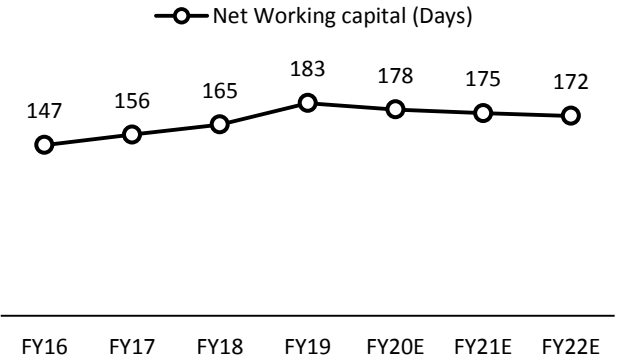
Source: MOFSL, Company

Exhibit 9: RoCE set to improve



Source: MOFSL, Company

Exhibit 10: Net working capital cycles likely to improve



Source: MOFSL, Company

## Financials and Valuations

### Consolidated - Income Statement

(INR M)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>Total Income from Operations</b>	<b>8,868</b>	<b>9,936</b>	<b>10,598</b>	<b>10,390</b>	<b>10,436</b>	<b>11,438</b>	<b>15,128</b>	<b>16,881</b>
Change (%)	9.3	12.0	6.7	-2.0	0.4	9.6	32.3	11.6
<b>Total Expenditure</b>	<b>7,690</b>	<b>8,438</b>	<b>8,940</b>	<b>8,808</b>	<b>9,115</b>	<b>9,717</b>	<b>12,602</b>	<b>13,927</b>
% of Sales	86.7	84.9	84.4	84.8	87.3	85.0	83.3	82.5
<b>EBITDA</b>	<b>1,178</b>	<b>1,498</b>	<b>1,658</b>	<b>1,581</b>	<b>1,321</b>	<b>1,721</b>	<b>2,526</b>	<b>2,954</b>
Margin (%)	13.3	15.1	15.6	15.2	12.7	15.1	16.7	17.5
Depreciation	293	297	194	238	312	522	576	646
<b>EBIT</b>	<b>885</b>	<b>1,201</b>	<b>1,464</b>	<b>1,343</b>	<b>1,009</b>	<b>1,199</b>	<b>1,950</b>	<b>2,308</b>
Int. and Finance Charges	185	202	52	40	140	281	295	310
Other Income	246	105	116	257	279	84	75	68
<b>PBT bef. EO Exp.</b>	<b>945</b>	<b>1,103</b>	<b>1,528</b>	<b>1,560</b>	<b>1,149</b>	<b>1,002</b>	<b>1,730</b>	<b>2,066</b>
EO Items	0	0	0	-129	0	-365	0	0
<b>PBT after EO Exp.</b>	<b>945</b>	<b>1,103</b>	<b>1,528</b>	<b>1,432</b>	<b>1,149</b>	<b>637</b>	<b>1,730</b>	<b>2,066</b>
Current Tax	286	446	459	505	352	196	436	521
Deferred Tax	-45	-74	20	1	-82	0	0	0
Tax Rate (%)	25.5	33.8	31.4	35.3	23.5	30.8	25.2	25.2
Less: Minority Interest	0	0	0	-13	-6	9	20	21
<b>Reported PAT</b>	<b>704</b>	<b>731</b>	<b>1,048</b>	<b>939</b>	<b>885</b>	<b>432</b>	<b>1,274</b>	<b>1,524</b>
<b>Adjusted PAT</b>	<b>704</b>	<b>731</b>	<b>1,048</b>	<b>1,022</b>	<b>885</b>	<b>797</b>	<b>1,274</b>	<b>1,524</b>
Change (%)	-11.0	3.7	43.5	-2.5	-13.4	-9.9	59.9	19.6
Margin (%)	7.9	7.4	9.9	9.8	8.5	7.0	8.4	9.0

### Consolidated - Balance Sheet

(INR M)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Equity Share Capital	1,323	1,446	1,446	1,446	1,446	1,413	1,413	1,413
Total Reserves	3,682	5,714	6,671	7,123	7,187	6,902	7,716	8,688
<b>Net Worth</b>	<b>5,097</b>	<b>7,161</b>	<b>8,117</b>	<b>8,569</b>	<b>8,634</b>	<b>8,315</b>	<b>9,129</b>	<b>10,102</b>
Deferred Tax Liabilities	-50	57	73	82	179	179	179	179
Total Loans	2,427	732	624	1,643	3,340	2,840	3,340	2,540
<b>Capital Employed</b>	<b>7,474</b>	<b>7,949</b>	<b>8,814</b>	<b>10,294</b>	<b>12,261</b>	<b>11,442</b>	<b>12,756</b>	<b>12,929</b>
Gross Block	4,573	2,494	3,378	3,879	5,254	5,454	6,679	6,929
Less: Accum. Deprn.	2,612	427	621	860	1,171	1,693	2,269	2,916
<b>Net Fixed Assets</b>	<b>1,961</b>	<b>2,067</b>	<b>2,757</b>	<b>3,019</b>	<b>4,083</b>	<b>3,761</b>	<b>4,410</b>	<b>4,013</b>
Goodwill on Consolidation	776	206	206	356	398	398	398	398
Capital WIP	105	181	75	602	376	0	0	0
<b>Total Investments</b>	<b>0</b>	<b>354</b>	<b>497</b>	<b>1,105</b>	<b>1,112</b>	<b>712</b>	<b>312</b>	<b>212</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>6,502</b>	<b>7,220</b>	<b>7,196</b>	<b>7,669</b>	<b>8,226</b>	<b>9,134</b>	<b>11,450</b>	<b>12,782</b>
Inventory	3,175	3,352	3,502	3,480	3,739	3,940	5,075	5,533
Account Receivables	1,945	2,288	2,170	2,766	2,845	3,071	4,062	4,532
Cash and Bank Balance	759	822	555	239	409	750	497	691
Loans and Advances	622	758	970	1,185	1,233	1,373	1,815	2,026
<b>Curr. Liability &amp; Prov.</b>	<b>1,870</b>	<b>2,126</b>	<b>1,958</b>	<b>2,502</b>	<b>2,190</b>	<b>2,818</b>	<b>4,069</b>	<b>4,732</b>
Account Payables	977	1,633	1,138	1,556	1,343	1,438	1,899	2,099
Other Current Liabilities	553	400	709	816	738	915	1,362	1,688
Provisions	340	93	111	130	110	466	809	946
<b>Net Current Assets</b>	<b>4,632</b>	<b>5,094</b>	<b>5,238</b>	<b>5,167</b>	<b>6,036</b>	<b>6,316</b>	<b>7,380</b>	<b>8,050</b>
Deferred Tax assets	0	47	41	44	255	255	255	255
Misc Expenditure	0	0	0	0	0	0	0	0
<b>Appl. of Funds</b>	<b>7,474</b>	<b>7,949</b>	<b>8,814</b>	<b>10,294</b>	<b>12,261</b>	<b>11,442</b>	<b>12,756</b>	<b>12,929</b>

## Financials and Valuations

### Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>5.3</b>	<b>5.1</b>	<b>7.2</b>	<b>7.1</b>	<b>6.1</b>	<b>5.6</b>	<b>9.0</b>	<b>10.8</b>
Cash EPS	7.5	7.1	8.6	8.7	8.3	9.3	13.1	15.4
BV/Share	38.5	49.5	56.1	59.3	59.7	58.8	64.6	71.5
DPS	1.1	1.5	2.0	1.9	1.9	0.9	2.7	3.2
Payout (%)	25.6	35.7	32.6	34.9	37.1	36.2	36.2	36.2
<b>Valuation (x)</b>								
P/E	22.5	23.8	16.6	17.0	19.6	21.3	13.3	11.1
Cash P/E	15.9	16.9	14.0	13.8	14.5	12.9	9.2	7.8
P/BV	3.1	2.4	2.1	2.0	2.0	2.0	1.9	1.7
EV/Sales	2.0	1.7	1.6	1.8	1.9	1.7	1.3	1.1
EV/EBITDA	14.9	11.5	10.5	11.9	15.4	11.1	7.8	6.4
Dividend Yield (%)	0.9	1.2	1.6	1.6	1.6	0.8	2.3	2.7
FCF per share	3.0	4.3	0.9	-1.7	-5.3	9.9	-3.2	12.1
<b>Return Ratios (%)</b>								
RoE	14.2	11.9	13.7	12.2	10.3	9.4	14.6	15.9
RoCE	15.6	16.9	19.0	16.9	11.6	11.1	17.1	18.9
<b>Working Capital Ratios</b>								
Asset Turnover (x)	1.2	1.2	1.2	1.0	0.9	1.0	1.2	1.3
Inventory (Days)	131	123	121	122	131	126	122	120
Debtor (Days)	80	84	75	97	99	98	98	98
Creditor (Days)	40	60	39	55	47	46	46	45
<b>Leverage Ratio (x)</b>								
Current Ratio	3.5	3.4	3.7	3.1	3.8	3.2	2.8	2.7
Interest Cover Ratio	4.8	5.9	28.4	33.8	7.2	4.3	6.6	7.4
Debt/Equity	0.5	0.1	0.1	0.2	0.4	0.3	0.4	0.3

### Consolidated - Cash Flow Statement

(INR M)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
OP/(Loss) before Tax	945	1,206	1,528	1,560	1,149	1,002	1,730	2,066
Depreciation	293	294	194	238	312	522	576	646
Interest & Finance Charges	175	130	-64	-217	-139	198	220	242
Direct Taxes Paid	-285	-394	-480	-506	-270	-196	-436	-521
(Inc)/Dec in WC	-375	-374	-412	-245	-698	62	-1,318	-475
<b>CF from Operations</b>	<b>753</b>	<b>863</b>	<b>767</b>	<b>830</b>	<b>352</b>	<b>1,587</b>	<b>772</b>	<b>1,958</b>
Others	-136	1	147	98	74	-365	0	0
<b>CF from Operating incl EO</b>	<b>617</b>	<b>864</b>	<b>914</b>	<b>928</b>	<b>426</b>	<b>1,222</b>	<b>772</b>	<b>1,958</b>
(Inc)/Dec in FA	-219	-238	-778	-1,178	-1,192	176	-1,225	-250
<b>Free Cash Flow</b>	<b>399</b>	<b>626</b>	<b>135</b>	<b>-249</b>	<b>-765</b>	<b>1,399</b>	<b>-453</b>	<b>1,708</b>
(Pur)/Sale of Investments	3	4	-143	-608	-7	400	400	100
Others	17	-331	241	-22	279	84	75	68
<b>CF from Investments</b>	<b>-199</b>	<b>-565</b>	<b>-680</b>	<b>-1,808</b>	<b>-920</b>	<b>660</b>	<b>-750</b>	<b>-82</b>
Issue of Shares	-38	1,956	0	0	0	-594	0	0
Inc/(Dec) in Debt	322	-1,589	-108	1,019	1,697	-500	500	-800
Interest Paid	-183	-162	-52	-40	-140	-281	-295	-310
Dividend Paid	-176	-441	-342	-328	-328	-156	-461	-551
Others	0	0	0	-88	-566	-9	-20	-21
<b>CF from Fin. Activity</b>	<b>-75</b>	<b>-236</b>	<b>-502</b>	<b>564</b>	<b>664</b>	<b>-1,541</b>	<b>-276</b>	<b>-1,682</b>
<b>Inc/Dec of Cash</b>	<b>344</b>	<b>63</b>	<b>-268</b>	<b>-316</b>	<b>170</b>	<b>342</b>	<b>-253</b>	<b>194</b>
Opening Balance	415	759	822	554	239	409	750	497
<b>Closing Balance</b>	<b>759</b>	<b>822</b>	<b>554</b>	<b>239</b>	<b>409</b>	<b>750</b>	<b>497</b>	<b>691</b>

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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