IPO Note: S H Kelkar and Company Ltd.

Industry: Fragrance and Flavour **Recommendation: Subscribe** **Date: October 21, 2015**

Issue Snapshot

Company Name	S H Kelkar and Company Ltd.
Issue Opens	October 28, 2015 to October 30, 2015
Price Band	Rs. 173 to Rs. 180
Bid Lot	80 Equity Shares and in multiples thereof.
The Offer	Public issue of 2.82 – 2.87 Crores Equity shares of Face value Rs.10 each, (Comprising of fresh issue of 1.17 – 1.21 Crores Equity Shares (Rs. 210 cr) and Offer for Sale of 16,565,161 Equity Shares by Selling Shareholder).
Issue Size	Rs. 496.6 – 508.2 Crore
IPO Process	100% Book Building
Face Value	Rs. 10.00
Exchanges	NSE & BSE
BRLM	Kotak Mahindra Capital Company Limited, JM Financial Institutional Securities Limited
Registrar	Link Intime India Private Limited

Objects of the Offer

Offer for Sale

The Company will not receive any proceeds of the Offer for Sale by the Selling shareholder .

Fresh Issue

- Repayment/pre-payment in full or in part of certain loans availed by Company
- Investment in K.V. Arochem Private Limited, its wholly owned subsidiary ("KVA") for repayment/pre-payment in full or in part of certain loans availed by KVA; and
- General corporate purposes

Issue Break up

Issue Size	Allocation	Equity Shares*
QIB	50%	14,115,914
HNI	15%	4,234,774
RII	35%	9,881,140
Total Public	**100%**	**28231828**

* Based on higher price band @ Rs. 180

About the company

S H Kelkar and Company Limited are one of the largest fragrance and flavour companies in India by revenue, with a market share of approximately 12.0% for the year ended December 31, 2013 (Source: "Market Study on Fragrances and Flavours" by Nielsen, March 22, 2015). The Company is the largest domestic fragrance producer in India with a market share of approximately 20.5% for the year ended December 31, 2013 (Source: "Market Study on Fragrances and Flavours" by Nielsen, March 22, 2015), with exports of fragrance products to 52 countries. They are an emerging flavour producer in India with exports to 15 countries. Its fragrance manufacturing plants in Mumbai and Raigad in Maharashtra comply with the regulations of the International Fragrance Association ("IFRA") and its flavour manufacturing plant in Raigad in Maharashtra is registered with the United States Food and Drug Administration ("US FDA"). The Company has a long standing reputation in the fragrance industry developed in their 90 years of experience. They have a diverse range of products backed by their strong research and development capabilities.

The Company has a large and diverse mix of over 4,100 customers, including leading national and multi-national FMCG companies, blenders of fragrances & flavours and fragrance & flavour producers. 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. The company has over 3,700 customers for their fragrance and fragrance ingredients products, including, among others, Godrej Consumer Products Limited, Marico Limited, Wipro Consumer Care and Lighting Limited, Hindustan Unilever Limited, VINI Cosmetics Private Limited and J.K. Helen Curtis Limited. Its flavour products are used as a raw material by producers of baked goods, dairy products, beverages and pharmaceutical products. The Company has over 400 customers for their flavour products, including, among others, Britannia India, VICCO Laboratories, Vadilal Industries Limited and Ravi Foods.

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The Company has four manufacturing facilities, three of which are located in India and one in The Netherlands, with a total installed manufacturing capacity of over 19,819 tons annually. They have a strong and dedicated research team of 18 scientists operating in their facilities in Mumbai and Barneveld. Their established sales and marketing department has separate teams focusing on fragrance and flavour products. Company's sales and marketing teams operate from nine centers located in India, New Delhi, Mumbai, Ahmedabad, Cochin, Bengaluru, Pune, Nagpur, Hyderabad and Kolkata.. Company also has a team of 11 personnel for their fragrance operations overseas. The Compnay's overseas operations are managed by their offices in The Netherlands, Singapore, Indonesia and Thailand.

During FY15 and Q1FY16, total revenue was Rs. 8,603.31 mn and Rs. 2,239.72 mn, respectively, and net profit was Rs. 643.81 mn and Rs. 206.62 mn, respectively. During the last five financial years, total revenue and net profit grew at a CAGR of 16.5% and 19.6%, respectively. During FY15 and Q1FY16, revenue from domestic sales was Rs. 4,727.76 mn and Rs. 1,424.14 mn, respectively, and revenue from domestic sales in India as a % of net revenue was 56.5% and 64.1%, respectively. For FY15 and Q1FY16, revenue from overseas sales was Rs. 3,612.01 mn and Rs. 791.18 mn, respectively, and overseas sales as a % of net revenue was 43.2% and 35.6%, respectively.

Now in order to reduce certain loans of the company and its subsidiary, the company is coming out with an IPO of Rs. 210.00 crore and also having offer for sale of 16565161 equity shares by existing stakeholders. On the financial front the company has show good performance in the past and also created wealth for its shareholder with RoE of ~13% in the last 5 years. Now as this is the first company under Fragrance and Flavour sector to be listed, it is expected to capture the first mover advantage. The companies has unique business ideas which sets apart from its competitors, a wide spread manufacturing facilities across Vashivali, Vapi and Mulund in India, and Barneveld in the Netherlands gives an equal access to both developed and emerging markets. The company with its set challenges to perform never failed to meet the global quality standard and had been thoroughly adhering to the rules set against the certification issued by the FSSC, the FSSAI and other regulatory bodies. The company is in that set of business where personal preference and liking changes frequently and in order to cater the changing domestic and global customer preference has set up two R&D centres - in Mumbai, India and PfW Aroma Chemicals Barneveld, Netherlands, dedicated towards discovery and development of new aroma products and processes. On the valuation front, at the higher price band of Rs 180, company is available in the PE of ~31x (annualized quarterly earning), looks like a tad higher but considering the company servicing FMCG sector and strong future prospects valuation is justified and it can be considered as a safe long term bet. Investors are advised to **SUBSCRIBE** to the issue.

Financial Statement

(In Rs. Cr)	FY11	FY12	FY13	FY14	FY15	Q1FY16
Share Capital	104.3	107.3	12.0	14.1	141.5	141.5
Net Worth	223.3	376.2	424.4	481.0	510.3	538.3
Long Term Borrowings	86.9	75.6	47.5	68.9	39.1	34.7
Other Long Term Liabilities	17.8	11.5	14.8	15.4	15.1	15.3
Short-term borrowings	149.8	138.2	85.6	114.9	174.5	141.8
Other Current Liabilities	125.5	110.7	155.1	186.7	205.0	201.0
Fixed Assets	157.8	162.9	182.8	218.8	206.6	207.3
Non Current Assets	78.9	131.7	141.3	119.5	121.7	130.1
Current Assets	449.1	417.6	455.6	528.5	615.7	593.6
Total Assets	685.8	712.2	779.7	866.8	944.0	931.0
Revenue from Operations	457.4	567.1	664.8	759.4	834.0	221.5
Revenue Growth (%)		24.0	17.2	14.2	9.8	73.4
EBITDA	91.0	108.4	119.6	144.8	142.6	40.3
EBITDA Margin (%)	19.9	19.1	18.0	19.1	17.1	18.2
Net Profit	31.5	41.2	61.6	79.1	64.4	20.7
Net Profit Margin (%)	6.9	7.3	9.3	10.4	7.7	9.3
Earnings Per Share (Rs.)	2.2	3.1	4.6	6.0	4.8	1.6
Return on Networth (%)	12.9%	11.2%	16.2%	18.3%	13.5%	4.1%
Net Asset Value per Share (Rs.)	29.3	48.4	31.0	32.8	36.1	37.7

Source: RHP, Ashika Research

Cash Flow Statement

(In Rs. Cr)	FY11	FY12	FY13	FY14	FY15	Q1FY16
Cash flow from Operations Activities	(113.0)	73.3	103.1	32.1	61.7	15.5
Cash flow from Investing Activities	(133.5)	(37.8)	(33.3)	(63.7)	(17.3)	(5.9)
Cash flow from Financing Activities	232.0	(57.3)	(60.7)	36.0	(7.5)	(47.8)
Net increase/(decrease) in cash and cash equivalents	(14.5)	(21.8)	9.1	4.3	36.9	(38.1)
Cash and cash equivalents at the beginning of the year	55.3	40.9	19.4	28.6	34.9	72.4
Cash and cash equivalents at the end of the year	40.9	19.4	28.6	34.9	72.4	35.7

Source: RHP

Comparison with listed industry peers

There are no listed companies in India which are engaged exclusively in the business of manufacturing fragrances and flavours. Demand for products produced by the company is strongly correlated to the demand from the FMCG sector, and accordingly, the FMCG sector, as such, can be used as a reference for the fragrances and flavours sector.

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