Initiating Coverage |20 December 2016
Sector: Consumer Product

SH Kelkar

Adding flavor to fragrance

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Contents: SH Kelkar | Adding flavor to fragrance

SH Kelkar

BSE Sensex	S&P CNX
26,308	8,082

CMP: INR282 **TP: INR338 (20%)** **Buy**

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. In October 2015, it raised INR2,100m via an IPO to repay its own debt (INR1,260m) and subsidiary company debt (INR320m). The company derived 63% of its FY16 revenues from India and 37% from exports.

Adding flavor to fragrance

Market share and profitability improving; initiating with Buy

- **SHKL has established a strong presence in India's fragrance market (share of ~24% as of 2016), backed by its strong consumer insights, access to key raw materials, R&D prowess and compliance to regulatory norms. It intends to tap opportunities in new and nascent categories in India, such as men's grooming, fine fragrance, fabric softener and deodorants.**
- **SHKL is an emerging player in India's INR18.8b flavor market (share of ~1.5% as of 2016). The market is dominated by small unorganized players, which provides a huge opportunity for players like SHKL to grow via inorganic route. In line with this, the company recently acquired two new companies. This not only helped SHKL to increase its market share, but also provided access to a new client.**
- **Strong relationships with fast-growing FMCG companies, high exposure to emerging geographies (including India) and product innovation are the key for the company's growth going forward.**
- **We expect EBITDA margin to improve from 16.7% in FY16 to 20.5% in FY19, driven by (a) shift in composition of exports in favor of high-value-added items and (b) shift in production base of the ingredients business from the high-cost region of the Netherlands to the low-cost region of India. Over FY16-19E, we expect revenue/PAT CAGR of 16%/33% and RoCE improvement from 17% to 28%. We thus initiate coverage with a Buy rating and value the stock at 26x FY19E EPS. Our price target of INR338 implies a 20% upside.**

Established leadership in fragrance; targeting new categories

SHKL is India's largest domestic fragrance producer with a market share of ~24%. SHKL has been operating in the country for more than 90 years, which gives it an edge over MNC peers in terms of understanding and meeting consumer needs. We believe (a) access to key raw materials and in-house ingredient manufacturing, (b) strong R&D team of 80 people, (c) portfolio of 9,700 products and (d) compliance with regulatory norms will help the company to maintain its leadership position in the industry. Besides this, SHKL is looking to tap opportunities in new and nascent categories in India, like men's grooming, fine fragrance, fabric softener and deodorants.

Stock Info

Bloomberg	SHKL IN
Equity Shares (m)	144.6
52-Week Range (INR)	354 / 201
1, 6, 12 Rel. Per (%)	-2/32/13
M.Cap. (INR b)/ (USD b)	41.8/0.6
AvgVal. (INR m)	208

Financial Snapshot (INR b)

Y/E Mar	2016	2017E	2018E
Sales	9.3	10.4	12.3
EBITDA	1.5	1.8	2.3
NP	0.8	1.1	1.5
EPS (INR)	5.5	7.5	10.1
EPS Gr. (%)	4.2	34.8	35.7
BV/Sh. (INR)	52.7	57.8	64.6
RoE (%)	12.6	13.5	16.6
RoCE (%)	16.9	19.5	24.4
P/E (x)	50.8	37.7	27.8
P/BV (x)	5.3	4.9	4.4

Shareholding Pattern (%)

As on	Sep-16	Jun-16
Promoter	56.7	56.7
DII	1.7	2.2
FII	15.2	14.1
Others	26.4	27.0

FII Includes depository receipts

SH Kelkar

Adding flavor to fragrance

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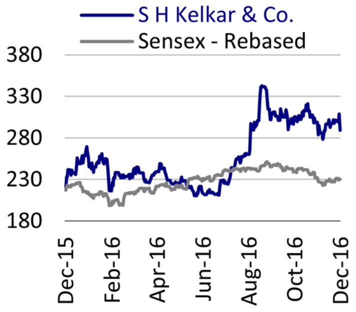
Please click here for Video Link

Stock Performance (1-year)



Emerging player in flavor business; acquisitions to aid growth

SHKL is an emerging player in the flavor market (entered this space in 2000) with a share of ~1.5%. The Indian flavor market – estimated at ~INR18.8b (as of 2015) – is dominated by many small players (which together account for ~42% share, as against just 12% in case of fragrance). We view this as a huge opportunity for SHKL as it intends to grow via the inorganic route. As the F&F industry is characterized by high level of customer stickiness, we believe growing inorganically is the quickest way to not only increase market share, but also gain access to new clients. In line with this, SHKL recently acquired Hi-Tech Technologies (HTT), thereby gaining access to one of the largest bakery and confectionary players (Parle) in India and doubling its market share. It also recently announced the acquisition of Gujarat Flavors Pvt. Ltd.

Relationship with fast-growing FMCG companies, product innovation and entry into new categories are the key to growth

SHKL's wallet share in domestic FMCG companies (such as GCPL, Dabur, Britannia, Marico, Vadilal and Vinni) has been quite sizeable at ~40%. Listed domestic FMCG names have exhibited robust growth over FY11-16 (average CAGR of 16%), and are expected to continue performing well, especially with demonetization and GST likely to adversely impact unorganized players. In view of intensifying competition among FMCG companies, product innovation is expected to gain traction. The company's products, which are used as raw materials by many FMCG companies, thus will be a critical component of product success. SHKL derived 15-20% of its revenue from products launched in past three years. This, along with its foray into new F&F categories, should help the company record revenue CAGR FY16-19E of 16%, in our view.

Strategy shift in ingredients and exports businesses to drive margins

SHKL also sells ingredients, where it enjoys gross margin of 35-40%. However, EBITDA margin of this business is subdued (below 5%) as it operates from a high-cost facility in the Netherlands. The company thus intends to shift production to its low-cost Vapi facility in India and also outsource production of low-value items. This should drive EBITDA margin improvement to 15-20% in ingredients over next three years. In exports, SHKL is focusing on replacing low-value items with high-value items to reduce volatility in sales and margins. With ~15% of low-value items already replaced and low capacity utilization levels of ~45%, we expect SHKL's EBITDA margin to expand from 16.7% in FY16 to 20.5% in FY19.

Valuation and view

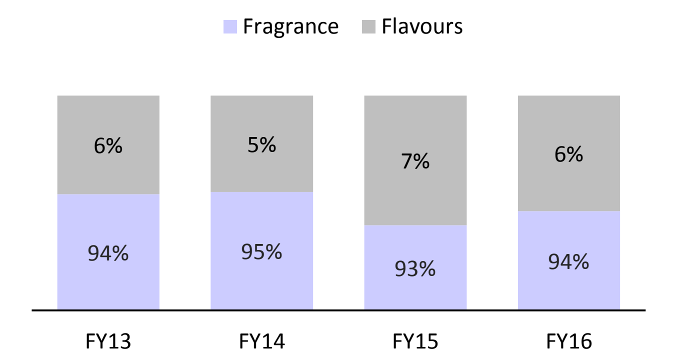
We expect SHKL to surpass industry revenue growth due to ~40% wallet share in fast-growing domestic FMCG companies and entry into new categories. It is also expected to scale up its EBITDA margins to match with global peers (avg. 23% margins in CY15) on the back of corrective measures in exports and ingredients business. We expect SHKL to record 16% revenue CAGR, 33% PAT CAGR over FY16–19E. This will lead to RoCE expanding from 17% in FY16 to 28% in FY19 alongwith strong FCF CAGR of 21% with a net cash balance sheet. The stock is currently trading at a PE of 22x FY19EPS which is at premium of ~30% to MNC peers and ~20% discount to leading front end domestic FMCG companies in India. We ascribe a similar discount to target PE of domestic FMCG companies and arrive at a multiple of 26x on FY19E EPS for SHKL. We initiate coverage with a Buy rating and a price target of INR338, implying 20% upside.

Company overview

Among the largest F&F entities

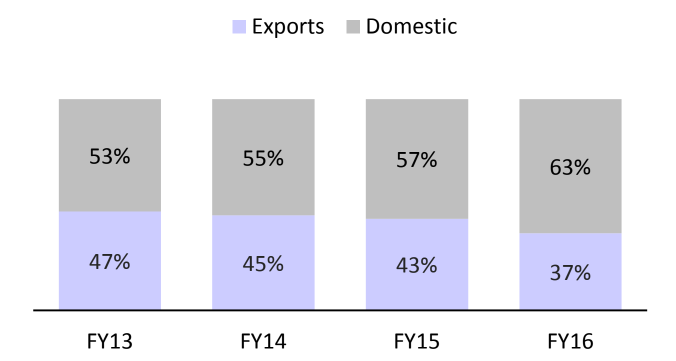
Established nearly 90 years ago by Mr S. H. Kelkar and Mr V. G. Vaze, SHKL is one of India's largest F&F companies (by revenue) with ~14% market share. It is the largest domestic fragrance producer with ~24% market share, exporting products to 52 countries. In the flavor space, it is an emerging producer in India with ~1.5% market share, exporting products to 15 countries. The company has four production facilities – three in India and one in the Netherlands.

Exhibit 1: SHKL is an established player in fragrance



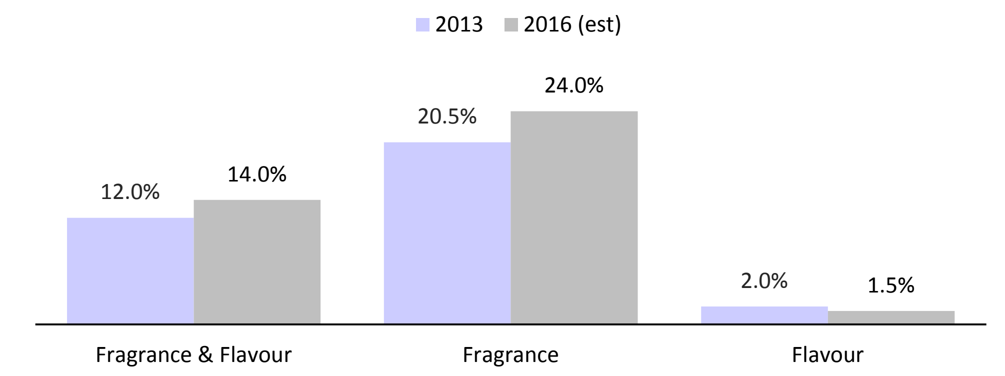
Source: Company, MOSL

Exhibit 2: SHKL has stronghold in domestic market



Source: Company, MOSL

Exhibit 3: SHKL's market share in India improving



*Market share for 2016 are based on our estimates

Source: Company, MOSL

Fragrance business

SHKL's products are used by leading companies engaged in personal care, hair care, skin care & cosmetics, household products, fine fragrances and F&F blends. A portion of the company's ingredients is used by other F&F companies. SHKL caters to more than 3,700 customers, including Godrej Consumer Products, Marico, Wipro, HUL, VINI Cosmetics and J.K. Helen Curtis. The fragrance business contributed 94% of SHKL's revenues in FY16. The company's manufacturing plants are located at Raigad, Mumbai, Vapi and Barneveld (the Netherlands).

Exhibit 4: Fragrances enhance value of several FMCG products

Source: Company, MOSL

Flavor business

The flavor business contributed ~6% of revenues in FY16. Its products are used as raw materials in baked goods, dairy products, beverages, pharma and confectionary. SHKL has over 400 customers under this segment, including Britannia, Vicco Laboratories, Vadilal Industries and Ravi Foods. The company's manufacturing plant for flavors is located at Raigad, Maharashtra.

Exhibit 5: Flavors used in diverse products

Source: Company, MOSL

Enjoys leadership in fragrance market with ~24% share

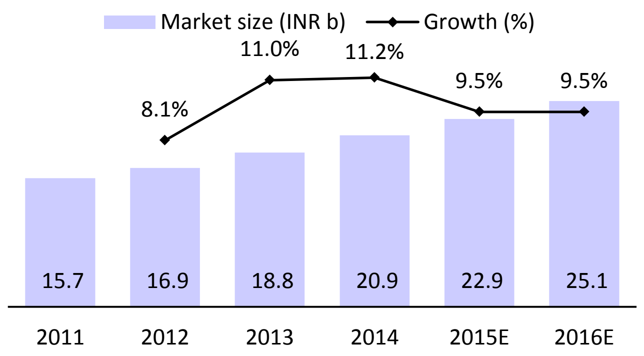
Tapping opportunities in new categories

- **SHKL is the largest domestic fragrance producer in India with a market share of ~24%.**
- **Consumer insight and strong R&D capabilities are the key differentiating factors in the F&F industry. SHKL's rich experience of over 90 years in India has provided it good understanding of consumer insight and behavior, giving it an edge over MNC peers.**
- **(a) Access to key raw materials, (b) strong R&D team of 80 people, (c) portfolio of 9,700 products and (d) compliance with regulatory norms are the additional strengths.**
- **SHKL is also looking at tapping opportunities in new and nascent categories in India, like men's grooming, fine fragrance, fabric softener and deodorants.**

Largest domestic player in fragrance market

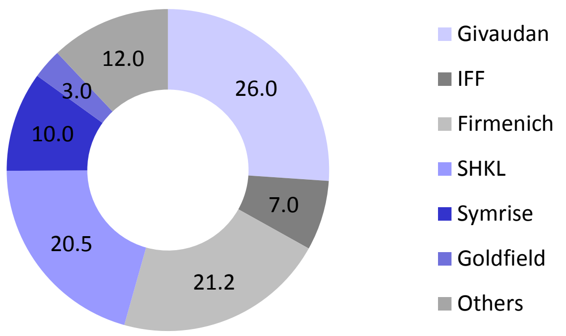
SHKL is the largest domestic fragrance producer in India with ~24% market share and exporting products to 52 countries. The company's stronghold in the fragrance market is backed by its strong consumer insight, R&D prowess, access to key raw materials, in-house manufacturing of ingredients and compliance to stringent regulatory norms.

Exhibit 6: Fragrance market growing at 10% CAGR



Source: Company, MOSL

Exhibit 7: Share of players in India fragrance market (2013)



Source: Company, MOSL

Scores well on consumer insight v/s large MNC peers

R&D is the key driving force behind an F&F company. We believe consumer insight, art and science are the pillars of the R&D function. SHKL has been operating in India for more than 90 years and thus has relatively good understanding of consumer insights/behavior when compared to MNCs. In case of art, it scores more or less in line with multi-national firms. On the science part, MNCs have an upper hand with their new cutting-edge technologies. To bridge this gap, SHKL has tied up with some companies to benefit from new technology and be prepared to launch new products depending on demand/market conditions. This has allowed SHKL to enjoy 40% wallet share in domestic FMCG companies.

Strong R&D team to support product innovation

Changing consumer preferences necessitate higher level of innovations and product launches in the FMCG industry. This, in turn, requires new and unique fragrances from F&F players. According to a Nielsen report, new product launches by FMCG entities in India and worldwide are generally in the range of ~10,000–20,000 per year, signifying continued growth potential for F&F companies. Strong R&D

capabilities are needed to introduce innovative products that meet dynamic consumer preferences. In line with this, SHKL operates five creation and development centers in India (Mumbai and Bangalore), Indonesia and the Netherlands. The company has a dedicated team of 18 scientists, who have developed 12 molecules over past three years and filed for three patents. Also, it has a team of 12 perfumers, 2 flavorists, evaluators and application executives at the creation and development centers. SHKL is the only company of Indian origin to file patents under fragrance and novel aroma molecules. SHKL earmarked 3% of revenues for R&D in FY15. SHKL continues to own the formulations and know-how of developed products. These products, in addition to customer-centric projects, aid in the continual enlargement and evolution of the company's portfolio. Such products and ingredients can be accessed for the development of newer products, thereby optimizing the company's future R&D expenses.

Exhibit 8: R&D center, Mumbai

Source: Company, MOSL

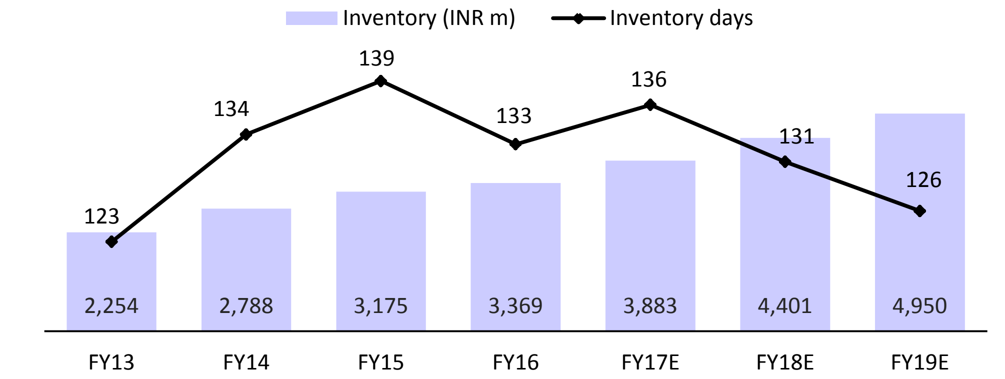
Exhibit 9: Manufacturing center, Mulund, Mumbai

Source: Company, MOSL

Enjoys access to key and rare raw materials

Given the nature of the F&F industry, quality and specifications of raw materials are of prime importance, and ensuring availability is the key in the business. SHKL utilizes more than 1,200 raw materials sourced from 52 countries. Due to the size and scale of operations, coupled with several decades of experience, SHKL is able to source raw materials in cost effective manner and thus ensure timely delivery. The company sources 43% of the requirement from global suppliers. Moreover, SHKL obtains 250 ingredients from its manufacturing plants at Vapi and Barneveld. For some raw materials, the company maintains inventory of over a year, subject to favorable pricing terms. The top 10 raw material suppliers account for 35% of its requirements. Essential oils, synthetic products, essences, fruits, flower and wood extracts, other plant substances, organic materials and aroma ingredients are commonly used as raw materials in the manufacturing process. In the F&F industry, there are no contractual/long-term agreements. Thus, the company has been maintaining good relationships with its suppliers.

Exhibit 10: SHKL to work on optimizing inventory



Source: Company, MOSL

Compliance to stringent regulatory norms

High level of regulatory compliances, sensitive nature of final products and high costs act as entry barriers for new entities in the fragrance space. Also, setting up of manufacturing facilities requires various approvals, and regulatory agencies (India and abroad) and clients regularly conduct checks to ensure compliance.

SHKL's fragrance manufacturing plants in Mumbai and Raigad comply with the International Fragrance Association (IFRA) regulations, while the flavor manufacturing plant in Raigad is registered with the USFDA. Additionally, plants are regularly audited by major client companies, such as Coca Cola and Hindustan Unilever (HUL), to ensure high level of standards. SHKL is also compliant with the norms required by the Food Safety and Standards Authority of India (FSSAI).

Tapping opportunities in new categories

SHKL is looking at tapping opportunities in new categories of growth, such as men's grooming, fine fragrance, fabric softener and deodorants, where India is still at a nascent stage compared with South-East Asian countries. According to Euromonitor, the Indian men's grooming market is projected to touch sales of INR142b by 2020, up from INR30b in 2010 and INR75b in 2015. Changing consumer lifestyle, increasing disposable incomes in urban areas and growing image/appearance awareness among men are driving growth in the men's grooming market in India. According to industry estimates, for India, penetration is low in the men's fairness cream market at 4% and in deodorants at 8%. According to market estimates, women's deo market stood at INR5.2b, while men's deo market stood at INR12.6b and is growing at high pace.

Acquisitions to aid growth in flavor business

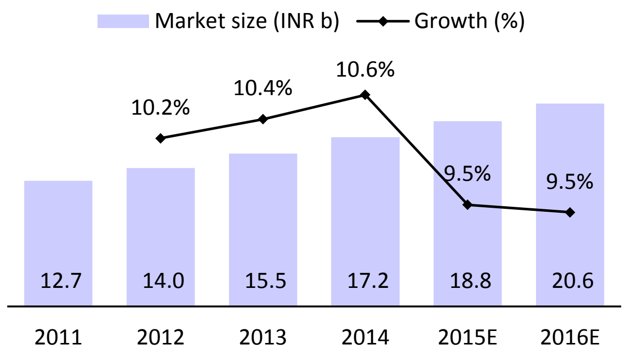
Dairy and beverages to be biggest categories; trend toward natural flavors

- **SHKL is an emerging player in India's flavor market with a share of ~1.5%. It entered the flavor market relatively late in the year 2000, as against the fragrance business where it is present for more than 90 years.**
- **India's flavor market size is estimated at ~INR18.8b. This market is dominated by small unorganized players (~42% share v/s just 12% in case of fragrance market). We view this as a huge opportunity for SHKL as it intends to grow through the inorganic route.**
- **SHKL recently acquired Hi-Tech Technologies (HTT). The acquisition has given the company access to one of the largest bakery and confectionary players (Parle) in India and also helped double its market share. It also recently announced the acquisition of Gujarat Flavors Pvt. Ltd.**
- **Additionally, we believe the dairy segment in India offers huge opportunity as only 3% of milk is processed in India v/s global average of 28%. In beverages, the share of carbonated drinks is gradually being replaced by non-carbonated drinks and flavored tea/coffee. SHKL also intends to grow in the fine fragrance category by forging partnerships with various luxury brands.**

Large unorganized sector provides opportunity for growth

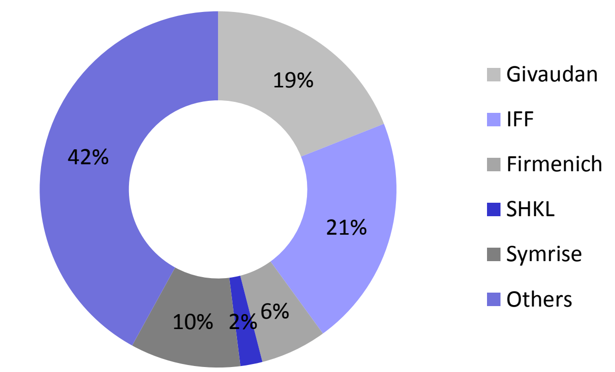
The flavor business was initiated in year 2000 by Mr Kedar Vaze. It entered the flavor market relatively late in the year 2000, as against the fragrance business where it is present for more than 90 years. The segment accounted for 6% of revenues in FY16. F&F industry is characterized by consolidation and significant M&As as such activities provide ready access to customers and strengthen capabilities in certain segments. As customer stickiness is a key feature in this business, inorganic growth is the only way to accelerate growth and reach geographies that are difficult to access. India's flavor market size is estimated at ~INR18.8b (as of 2015). This market is dominated by small unorganized players (42% share, as against just 12% in case of the fragrance market). We view this as a huge opportunity for SHKL as it intends to grow through the inorganic route.

Exhibit 11: Flavors market expanding at ~10% CAGR



Source: Company, MOSL

Exhibit 12: Unorganized segment is ~42% of market



Source: Company, MOSL

Recent acquisitions boosting flavor business

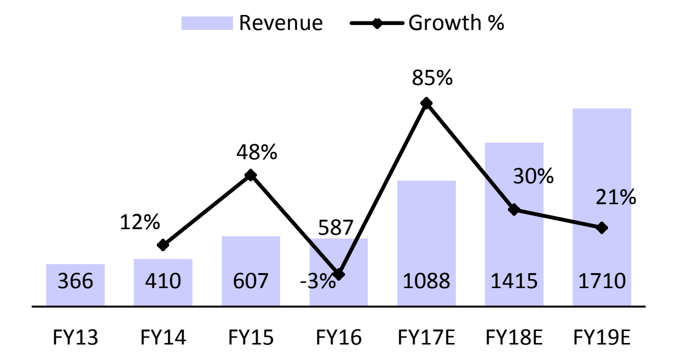
In line with its strategy (as articulated at the time of the IPO) to grow though the inorganic route, SHKL announced the acquisition of HTT for a consideration of INR251m. HTT is a Mumbai-based entity with pan-India operations spanning manufacturing and sales of flavors through its FSSA-licensed facility in Daman. The acquisition strengthens SHKL's capabilities in some segments and offers access to HTT's large customers in bakery and confectionary (via Parle). SHKL also acquired GFPL recently at a total cost of INR145m plus working capital. The deal also includes two brands, Three Birds and Wheel. The acquired company registered total revenue INR105m in FY16, and EBITDA margins were in line with industry levels. We believe the acquisition provides an impetus to growth in the flavor business.

Exhibit 13: Recent acquisitions by SHKL

Company Name	Category	Acquisition cost	Revenue (INR m)		
			FY14	FY15	FY16
Hi Tech Technologies	Flavor	INR251m	96.9	161.4	230
Gujarat Flavours Pvt Ltd	Flavor	INR145m plus net working capital	66.1	97.7	104.9

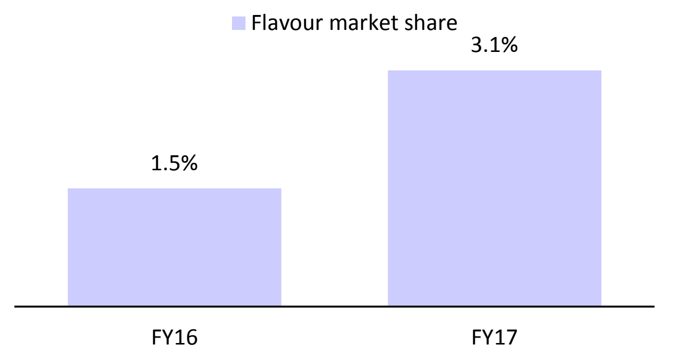
Source: Company, MOSL

Exhibit 14: Acquisitions driving flavours growth in FY17



Source: Company, MOSL

Exhibit 15: Market share has doubled post acquisition



Source: Company, MOSL

Dairy and beverages to be biggest categories; trend toward natural flavors

Flavors serve as raw materials for producers of baked goods, dairy products, beverages, pharma and confectionary. The business is expected to register robust growth due to increasing demand for ready-to-eat, fortified juices and milk product categories. According to Givaudan's (largest F&F company in world) 'Vision 2020' investor presentation, the trend is largely skewed toward more local and small brands due to a shift in consumer preferences and expectations. For global F&F players, 80% of the developments in their flavor business have been ascribed to high-growth markets. The company sees dairy and beverages segments to be the biggest categories of growth in India. In dairy segment, only 3% of milk is processed in India v/s global average of 28%. In beverage segment, the share of carbonated is gradually coming down, while non-carbonated and flavored tea and coffee businesses are expected to grow at a significant pace.

Given that the industry trend is shifting toward natural from synthetic flavor, SHKL plans to focus on this emerging category in India. It has thus developed 29-30 unique natural flavors, including ethnic flavors for the domestic flavor market. At global level, 60% of the flavor market is dominated by natural flavor, while in India, it is just 20%. Going ahead, SHKL will have a product range developed for this market and will continue investing in natural products/flavors on an ongoing basis.

SHKL's revenues to register 16% CAGR over FY16-19E

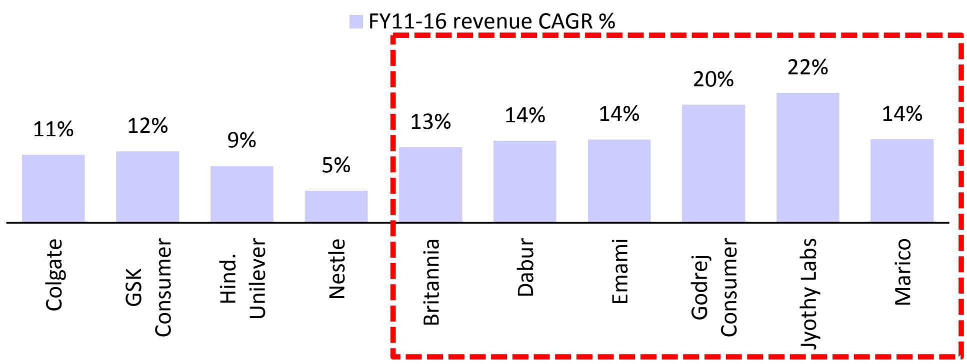
Exposure to high-growth FMCG companies and geographies

- **SHKL's strong relationship with domestic FMCG companies like GCPL, Dabur, Britannia, Marico, Vadilal and Vinni is demonstrated by their growing contribution to the company's revenues.**
- **Listed domestic FMCG names have exhibited robust growth over FY11-16 (avg. CAGR of 16%), and are expected to continue performing well, especially with demonetization and GST likely to adversely impact unorganized players.**
- **SHKL is well placed in terms of geographical exposure as it derives 84% of revenues from India and EM (including Asia ex-Japan and MENA regions) which have high growth potential.**
- **In view of 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. SHKL derived 15-20% of its revenue from products launched in past three years.**
- **This, along with its foray into new F&F categories, should help the company record revenue CAGR FY16-19E of 16%, in our view.**

High revenue contribution from domestic FMCG companies to drive outperformance

SHKL has over the years focused on building strong relationships with domestic FMCG companies like GCPL, Dabur, Britannia, Marico, Vadilal and Vinni. These FMCG names have exhibited robust growth over FY11-16 (average CAGR of 16%), and are expected to continue performing well, especially with demonetization and GST likely to adversely impact unorganized players. This shall allow SHKL to outperform industry growth as it has 40% wallet share in such domestic FMCG companies. SHKL, however, has low contribution from global FMCG companies present in India, which mostly source from multi-national F&F companies like Givaudan, IFF and Symrise both globally and in India. However, SHKL is also stepping into MNC FMCG space, and has HUL in its customer portfolio.

Exhibit 16: Domestic FMCG companies have exhibited robust growth profile



Source: Company, MOSL

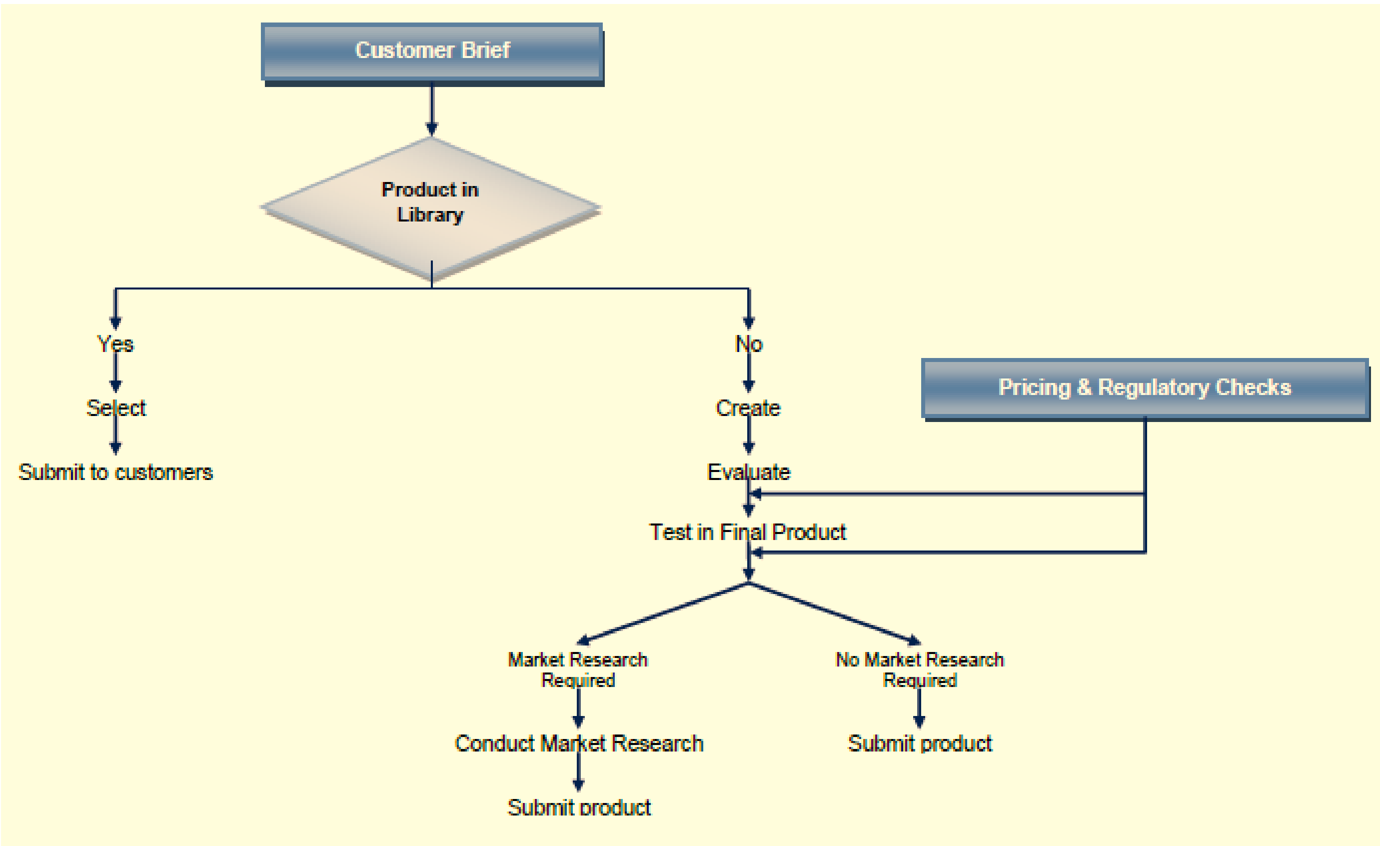
Exhibit 17: More than 3,700 fragrance customers

Source: Company, MOSL

Exhibit 18: Nearly 400 customers in flavor and still rising

Source: Company, MOSL

Exhibit 19: Customer briefing process (a practice prevalent in MNC FMCG companies)

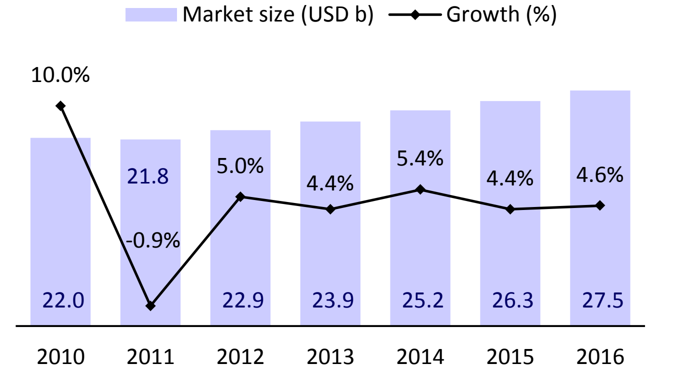


Source: Company, MOSL

SHKL derives 84% of revenue from emerging markets

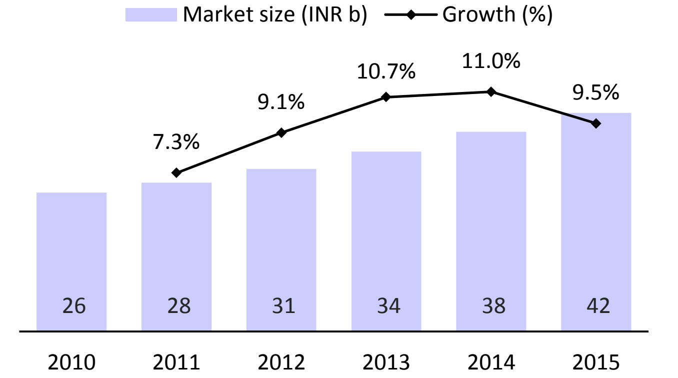
The Indian F&F industry grew at 9.5%, outperforming global F&F industry growth of 4.8% over last five years. SHKL derives 84% of its revenue from India and EM (including Asia ex-Japan and MENA regions), as against MNC peers which derive ~43% from developing countries. In 2013, the global F&F industry derived ~57% of its revenue from North America and Western Europe, and 43% from the rest of the world.

Exhibit 20: Global F&F industry grew at 4.8% CAGR 2011-16



Source: Company, MOSL

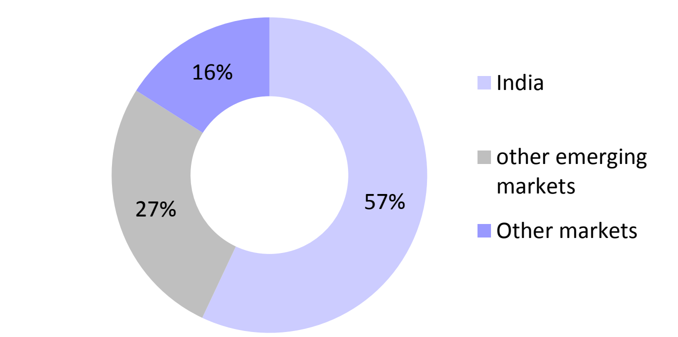
Exhibit 21: Indian F&F industry grew at 9.5% CAGR 2011-16



Source: Company, MOSL

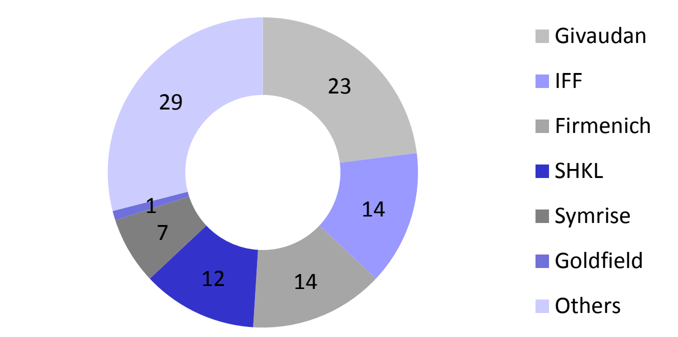
SHKL will focus on nine countries in the ASEAN and MENA regions with similar demographics, income patterns and aspirations like India. Our interactions with top global companies like IFF, Givaudan and Symrise suggest that they are placing a greater focus on the emerging markets of Asia-Pacific, South America, Middle East and Africa as urbanization and changing lifestyles there are expected to benefit FMCG companies and their F&F suppliers.

Exhibit 22: SHKL revenue share geography-wise



Source: Company, MOSL

Exhibit 23: Indian F&F industry market share



Source: Company, MOSL

Exhibit 24: Key extract from IFF Annual report

Emerging Markets

Emerging markets grew three times faster than developed markets on a local currency basis. In 2014, approximately 50% of our total sales were in emerging markets—up from 45% five years ago—with new facilities and expanded capacities in these key markets. Over the past 12 months,

Source: IFF Annual report

Exhibit 25: Key extract from Symrise Annual report

In the Asia/Pacific region, sales at local currency increased i the past fiscal year by 20%. The markets in the Philippines, Bangladesh, India, Thailand and Indonesia provided especiall high, occasionally double-digit growth rates for the Flavor & Nutrition segment. The business units Beverages and Savory managed to notably expand their business and achieve double-digit and high single-digit growth. The Sweet business unit, on the other hand, was slightly below the level of the previous year.

Source: Symrise Annual report

F&F companies with exposure to emerging markets also have significant competitive advantages. For example, in 2014, Givaudan SA generated approximately 46% of its revenue from the developing markets of Asia, Eastern Europe and the Middle East, while Symrise AG generated approximately ~45% of its sales from the emerging markets of Asia, Latin America, Eastern Europe, Middle East and Africa. Realizing the growth potential of emerging markets, many large F&F companies have been expanding their presence, production facilities, sales organization and product offerings in emerging markets.

New product innovation to drive growth

SHKL expects the number of new product launches in next five years to be higher than last five years. In the past 2-3 years, ~15-20% of SHKL's growth has been coming from newly launched products. Additionally, SHKL intends to focus on premium category of products – it derives 80% of its revenues from top branded business and 20% from lower-cost products. However, it has relatively low market share in detergents and soaps as this space is dominated by MNCs which typically buy from global F&F companies like Givaudan, IFF and Symrise.

In the fine fragrance category, SHKL has appointed an expert through which the company will approach various luxury branded players and showcase its products in showrooms. Such luxury branded players typically extend their brand into categories like high-end perfumes, where SHKL intends to capitalize.

To deepen relationships by providing ancillary service

The company recently started providing logistic support to clients – this is not a focus area for SHKL, but a tactical move to deepen relationship with clients. For example, ITC buys fragrances from SHKL, which get delivered at a central location and are then sent to its various production facilities. This increases logistic cost and time for clients. Here, SHKL plays a role by directly supplying fragrances to its various production facilities. Although it is an 8-10% EBITDA margin business (which is lower than its current EBITDA margin), this approach helps the company to strengthen relationship and customer stickiness. Over the long term, it also intends to extend support on customized packaging by tying up with packaging companies.

The company also acquired 100% of share capital of Rasiklal Hemani Agencies at book value – valued at INR282m as on 31st March 2016. Further, an amount of INR50m was paid by way of goodwill. The payback of 2-3 years is expected through cost optimization. This was in line with its aim to help consolidate the company's leadership position in Fragrance in India as it expands the marketing and sales team to address growing requirements of customers and directly manage customer relationships in the northern region.

High-margin branded small pack business showing good traction

SHKL manufactures 350 fragrance products at the Raigad plant, catering to over 1,000 customers (including traders, resellers and SMEs engaged in the production of soaps, detergents and other homecare products in smaller towns and villages of India). These products are sold in 25–500g packs under the 'SHK', 'Keva' and 'Cobra' brands. Branded small pack is a focus segment for SHKL with a dedicated sales team (unlike MNC peers). Currently, this segment accounts for ~14% of the company's revenues, with Cobra itself contributing ~6%. In addition to the distribution network, these products are available off-the-shelf at two outlets: one each in Mumbai and Bangalore. Management plans to expand this category by enhancing offerings and distribution network.

Exhibit 26: SHKL's small pack business brands

Source: Company, MOSL

Margins to expand on strategic moves

Shift of strategy in ingredients and exports businesses

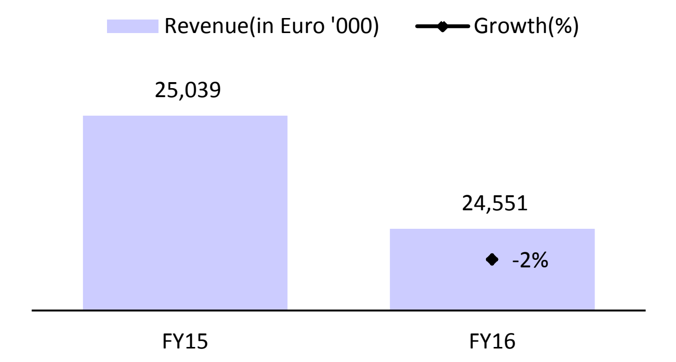
- **SHKL's gross margin in the ingredients business stands at 35-40%. However, EBITDA margin of the business is subdued as it operates from the high-cost facility in the Netherlands.**
- **Thus, it intends to shift production to the Vapi facility in India and also outsource production of low-value items. This is expected to drive EBITDA margin improvement to ~20% in the ingredients business over next three years.**
- **On exports front, the company has focused on high-value items. The transition to replace 15% of low-value item sales with high-value items is now complete.**
- **SHKL invested INR1.8b over FY07-15 to expand capacities for future growth. The current capacity utilization rate stands at ~45%. We expect improving utilization to provide operating leverage benefits.**
- **Consequently, we expect overall EBITDA margin to improve from 16.7% in FY16 to 20.5% in FY19.**

Shift of strategy in ingredients business

The company conducts 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 ~INR1.7b (FY16).

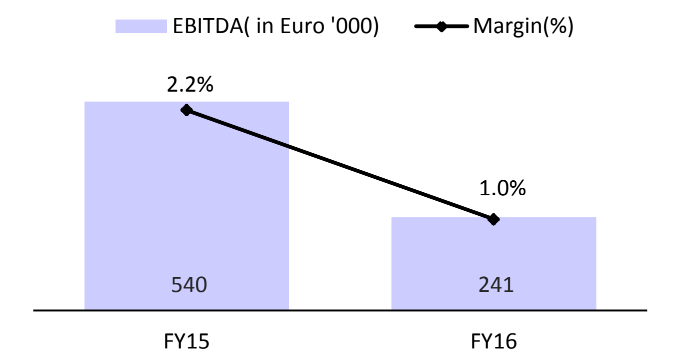
SHKL's gross margin in the ingredients business currently stands at 35-40%. However, EBITDA margin of the business is subdued as it operates from the high-cost facility in the Netherlands. Strategically, SHKL intends to shift production to its Vapi facility and continue with just R&D in the Netherlands. SHKL will also focus on requirements for in-house consumption with incremental R&D spends. Additionally, it intends to outsource production of low-value items, and retain production of high-value and confidential items. SHKL has also build sufficient capacity at the Vapi (2,064mtpa) facility. By shifting production to India (Vapi) and strategically focusing on producing high-value items, the company intends to improve its EBITDA margins to 15% in the near term, and gradually take it to 20% levels.

Exhibit 27: PFW revenue growth profile



Source: Company, MOSL

Exhibit 28: Subdued EBITDA margins in PFW ingredients

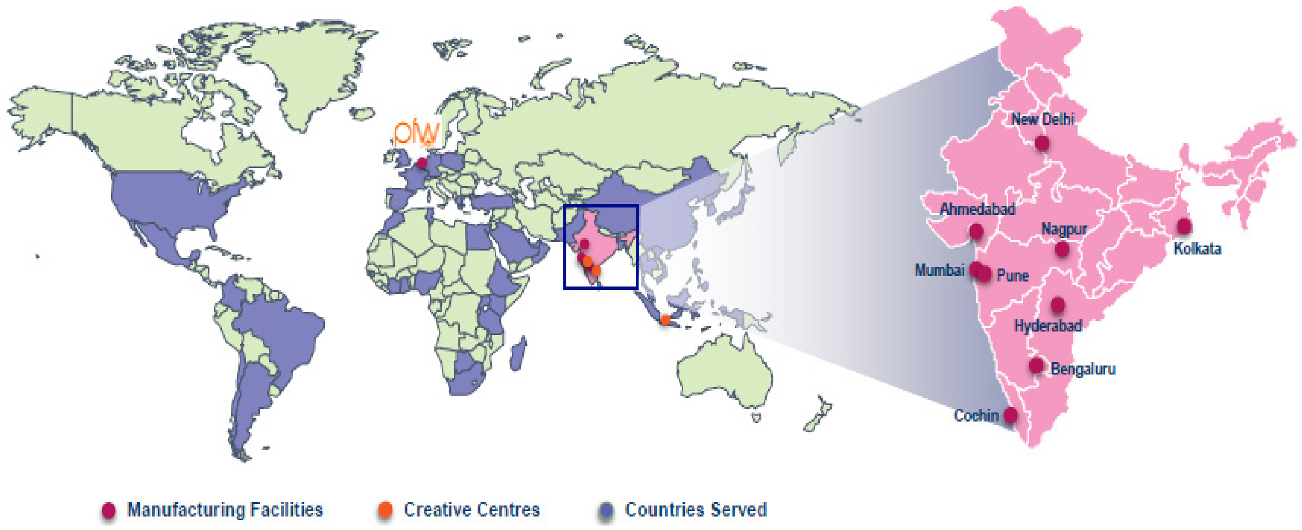


Source: Company, MOSL

Expect turnaround in exports business

In terms of exports, SHKL has presence in over 52 countries globally. It intends focus on nine countries in the ASEAN and MENA regions with demographics, income patterns and aspirations similar to India. SHKL primarily focuses on countries where demand is growing and economic situation is continuing to hold normal.

Exhibit 29: Presence across globe with major contribution from EMs



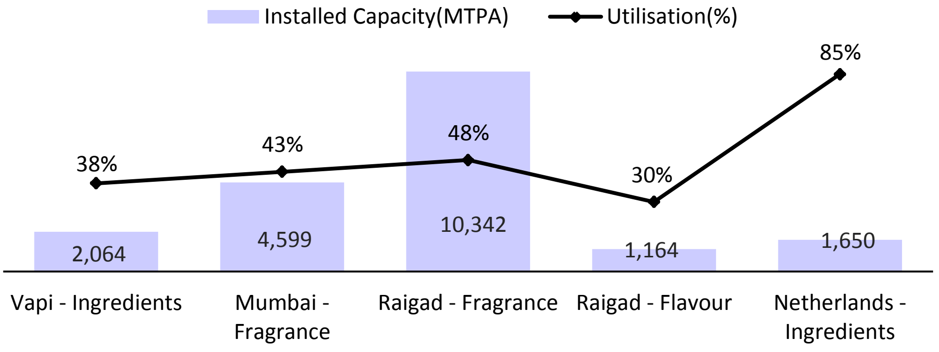
Source: Company

The exports business of fragrance has been underperforming as the company's exports were not performing well in some regions of Africa (e.g. South Africa and Nigeria) due to currency devaluation. In these regions, SHKL has lost share to other products or strategically discontinued the business . On the exports front, SHKL has taken a conscious call to continue focusing on the premium area of the business – it has replaced 15% of low-value item sales with high-value items. As the transition is now complete, we believe the company is set for growth and improvement in margins.

Increasing utilization to provide operating leverage benefits

SHKL's usually focuses on a particular product and benefits as the product gains traction through its lifecycle. Accordingly, the company builds capacities once in 15-20 years and front-ends the investment cycle. SHKL invested INR1.8b over FY07-FY15 to build capacity of 20,000mtpa. The company's current capacity utilization stands at ~45%. In our opinion, it would undertake initiatives to increase capacity, considering the multiple levers in place. Given that there are no capex requirements for next 3–5 years – with the exception of maintenance capex (~INR150-200m) – we expect operating leverage benefits to play out. SHKL has one work shift, which can be raised to three during peak times. Management highlights peak utilization levels could lead to revenues of 3x the current figure.

Exhibit 30: Capacity details of SHKL (FY16)



Source: Company, MOSL

SWOT Analysis

- ☑ Quality of identifying trends and being localized
- ☑ 24% share of Indian FMCG industry (40% of domestic FMCG)
- ☑ Customer stickiness with 80% repeatability
- ☑ Revenues from fast-growing emerging markets constitutes 84% of revenues

- ☑ Low access to global FMCG giants
- ☑ Lack of resources and muscle power compared to MNC peers in terms of technology.
- ☑ High inventory days

- ☑ India's F&F market pegged at INR46b (fragrance INR25b and flavors INR21b), growing at CAGR of 10% over 2011-16.
- ☑ Tapping the high value and margin fine fragrances market
- ☑ Growing FMCG industry
- ☑ Increasing consumer spends

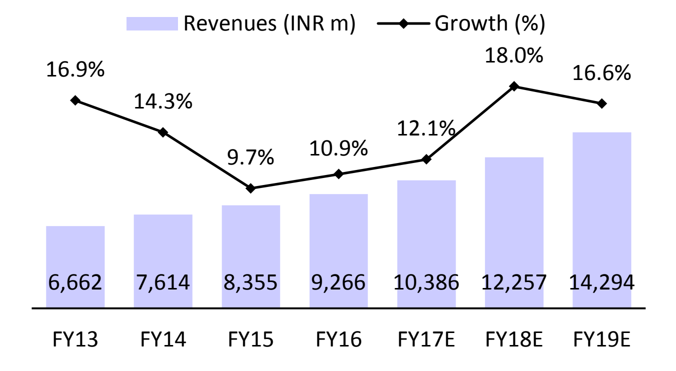
- ☑ Increased aggression by global peers like Givaudan, IFF and Symrise
- ☑ Slowdown in FMCG sector
- ☑ Failure of final FMCG product

Earnings to post 33% CAGR over FY16–19E

Higher utilization, operating leverage to boost PAT

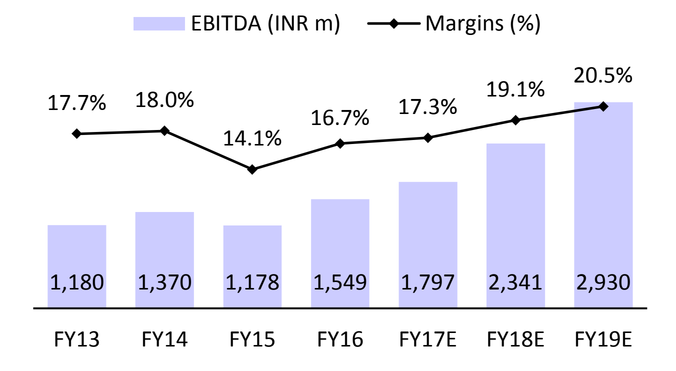
We believe SHKL will deliver revenue CAGR of 16% over FY16-19E led by sizeable revenue contribution from fast-growing FMCG companies, high exposure to emerging geographies (including India) and product innovation. We expect EBITDA margin to improve from 16.7% in FY16 to 20.5% in FY19, driven by (a) shift composition of the exports business in favor of high-value items and (b) shift of ingredients production base to a low-cost location in India.

Exhibit 31: Revenues to post 16% CAGR over FY16–19E



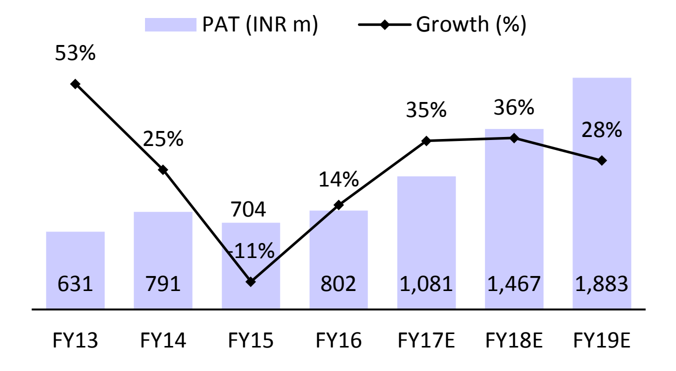
Source: Company, MOSL

Exhibit 32: EBITDA to register CAGR of 24% over FY16–19E



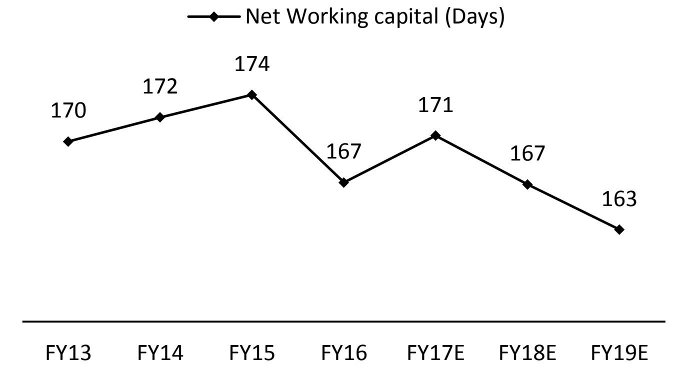
Source: Company, MOSL

Exhibit 33: PAT to record CAGR of 33% over FY16–19E



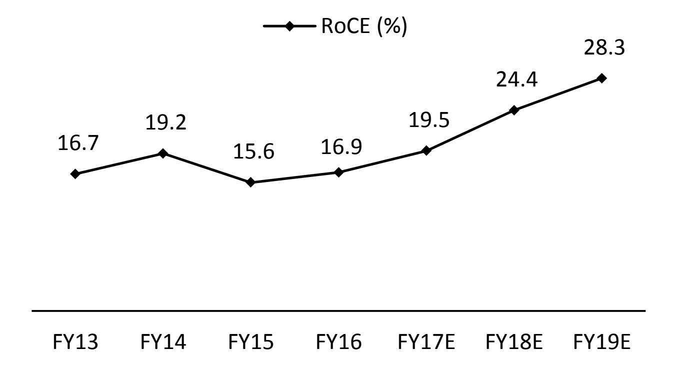
Source: Company, MOSL

Exhibit 34: Net working capital days to gradually improve



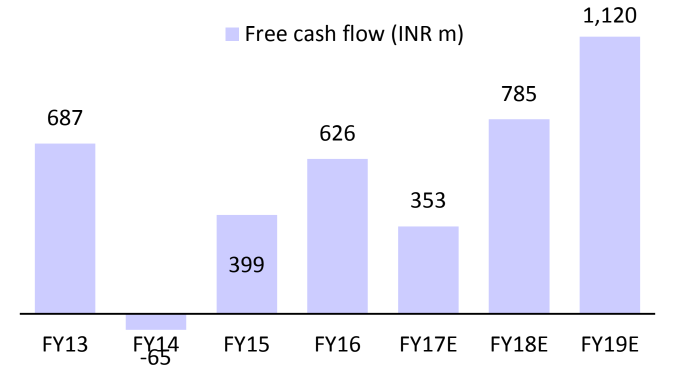
Source: Company, MOSL

Exhibit 35: RoCE to improve to 28% by FY19E



Source: Company, MOSL

Exhibit 36: FCF to grow at CAGR of 21% over FY16-19E



Source: Company, MOSL

Valuation and view

Initiating with Buy

SHKL offers fragrances and flavors to FMCG companies and thus plays a crucial role in the success of their products. We thus believe that it is in a sweet spot in the FMCG value chain.

Revenue growth to outperform MNC peers

The Indian F&F industry grew at 9.5%, outperforming global F&F industry growth of 4.8% over last five years. SHKL derives 84% of its revenue from India and EM (including Asia ex-Japan and MENA regions), as against MNC peers which derive ~45% from emerging countries. Over the years, SHKL has focused on building strong relationships with domestic FMCG companies like GCPL, Dabur, Britannia, Marico, Vadilal and Vinni. FMCG names have exhibited robust growth over FY11-16 (average CAGR of 16%), and are expected to continue performing well, especially with demonetization and GST likely to adversely impact unorganized players. SHKL's wallet share in domestic FMCG companies has been quite sizeable at 40%. The company is now also focusing on growing in flavor through the inorganic route. Cumulatively, we expect SHKL to register 16% revenue CAGR over FY16-19E with higher growth of 18.5% in FY18 and 18% in FY19.

EBITDA margin to catch up with global levels

Global players like Givaudan, IFF and Symrise enjoy EBITDA margins in the range of 21-25%. Global leader Givaudan has the highest EBITDA margin of ~25%. Our interactions with SHKL and other global players suggest that 23-24% EBITDA margins are achievable in F&F industry. SHKL also enjoys ~23% EBITDA margin in the domestic fragrance business. However, volatility in exports and lower margins in the ingredients business (sub-5%) have been a drag. Thus, its blended level EBITDA margin was 16.7% in FY16. The company is taking corrective measures in exports and the ingredients business (discussed earlier), which should allow it to expand margins gradually. We believe it can achieve 20.5% EBITDA margins by FY19.

Exhibit 37: EBITDA margin profile of peer companies

EBITDA margins %	CY11	CY12	CY13	CY14	CY15
Givaudan SA	20.9	22.1	23.9	24.2	24.6
International Flavors & Fragrance	20	20.3	22.1	22.4	22.9
Symrise AG	19.5	20.4	20.6	22	21.1
SHKL	**18.3**	**17.7**	**18**	**14.1**	**16.7**

Source: Company, MOSL

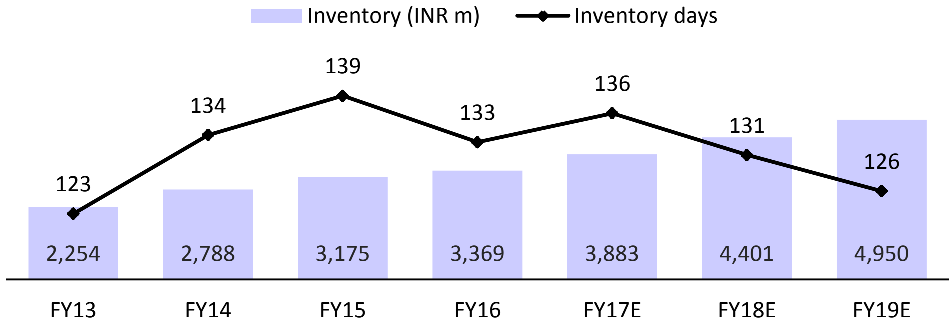
SHKL is also working to gradually reduce its net working capital days. In FY12, its net working capital days stood at 195 and inventory days at 148. Typically, inventory days are high in the F&F industry as companies usually stock rare raw materials and also buy raw materials in large quantities at attractive prices considering volatility in prices.

Exhibit 38: Working capital days profile of peer companies

Net working capital days	CY11	CY12	CY13	CY14	CY15
Givaudan SA	144	131	117	122	125
International Flavors & Fragrance	133	138	134	129	131
Symrise AG	142	136	138	141	133
SHKL	**195**	**170**	**172**	**176**	**167**

Source: Company, MOSL

Exhibit 39: SHKL to work on optimizing inventory



Source: Company, MOSL

As capex is now behind us with low utilization levels at 45%, we expect FCF generation to double from INR626m in FY16 to INR1,119m in FY19. With asset turnover ratio improvement and margin expansion, we expect RoCE to improve from 17% in FY16 to 28% in FY19. We expect SHKL to record CAGR of 16% and 33% in revenues and PAT, respectively, over FY16–19E.

Given its outperformance v/s peer companies, significant scope for growth in margins and no major capex requirement (capacity utilization is low at 45%), we believe valuation premium to peers is justified. The stock is currently trading at a PE of 22x FY19EPS which is at premium of ~30% to MNC peers and ~20% discount to leading front end domestic FMCG companies in India. We ascribe a similar discount to target PE of domestic FMCG companies and arrive at a multiple of 26x on FY19E EPS for SHKL. We initiate coverage with a Buy rating and a price target of INR338 (20% upside).

Exhibit 40: Peer comparison with MNC peers

Company Name	PE		EV/EBITDA		RoE %		EV/Sales		Sales CAGR	PAT CAGR
	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E	FY16-18E	FY16-18E
Givaudan SA	22	20	15	14	21	21	3	3	13	15
International Flavors & Fragrance	20	18	13	12	26	25	3	3	13	17
Symrise AG	23	21	13	13	17	17	3	3	11	14
SH Kelkar Ltd*	**38**	**28**	**23**	**17**	**14**	**17**	**4**	**3**	**15**	**35**

*MOSL estimates and Bloomberg estimates for MNC peers; Note: For Givaudan, IFF and Symrise the period FY17 and FY18 refers to CY16 and CY17 and further estimates are not available

Exhibit 41: Peer comparison with domestic FMCG peers

Company Name	PE		EV/EBITDA		RoE %	
	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Dabur	31	27	27	23	29	28
Brittania Industries	32	27	21	18	42	40
Marico	33	29	23	20	37	39
GCPL	32	27	24	21	23	23
SHKL*	**28**	**22**	**17**	**14**	**17**	**19**

*MOSL estimates and Bloomberg estimates for domestic FMCG peers

Exhibit 42: Assumption

	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E
Fragrance (INR m)	6285	7204	7763	8642	9298	10842	12584
Growth %		14.6	7.8	11.3	7.6	16.6	16.1
Flavour (INR m)	366	410	607	587	1088	1415	1710
Growth %		11.8	48.2	-3.3	85.3	30.1	20.8

Source: Company, MOSL

Bull & Bear case

Bull case

- Our bull case assumptions have positive impact on sales growth and operating margins. We assume higher capacity utilization on account of strong traction in the fragrance and flavor segments. Additionally, we assume that prices of critical raw materials to decrease for FY18 and FY19.
- We had assumed 380bp EBITDA margin improvement over FY16-19E in the base case. However, due to a decline in raw material prices in our bull case assumptions and operating leverage benefits, we are assuming 550bp YoY improvement over FY16-19E and 8% higher sales CAGR over the base case.
- In the bull case, we are assuming that the company will not pass on the benefit of lower raw material prices and thus enjoy higher margins. We also estimate that the company will be able to aggressively acquire new companies in the flavor business, and exports will turnaround quicker than expected.
- There is an increase of 10%/22%/32% in FY17E/FY18E/FY19E EPS over the base case to INR8.2/INR12.3/INR17.2.
- Assuming the 28x target multiple in bull case (vs 26x in base case), we get a bull case target price of INR481 (upside of 71% to CMP) based on FY19 EPS (v/s base case target price of INR338, upside of 20%).

Exhibit 43: Bull case scenario

	FY17E	FY18E	FY19E
Sales (INR m)	11,004	13,788	17,214
Sales growth (%)	18.8	25.3	24.9
EBITDA (INR m)	1,959	2,813	3,822
EBITDA Margin (%)	17.8	20.4	22.2
EBITDA growth (%)	26.5	43.6	35.9
PAT (INR m)	1,191	1,786	2,485
PAT Margin (%)	10.8	13.0	14.4
PAT growth (%)	48.5	49.9	39.2
EPS (INR)	8.2	12.3	17.2
Target multiple (x)			**28**
Target price (INR)			**481**
Upside/downside (%)			**71**

Source: MOSL

Bear case

- Our bear case assumptions mainly have negative impact on both sales growth and operating margins for FY18 and FY19.
- We are assuming EBITDA margin decline of 170bp over FY16-19E in the bear case and sales decline of 9%/19% in FY18E/FY19E over our base case.
- In our bear case, we assume that the company loses out on market share in the fragrance business, and its exports business does not turnaround and continues to remain a laggard. Additionally, we assume that the company is unable to pass on the increase in raw material prices, and the benefits of operating leverage will also get delayed.
- This will lead to decrease of 3%/27%/42% in FY17E/FY18E/FY19E EPS over the base case to INR7.2/INR7.4/INR7.5.

- Assuming the 24x target multiple in bear case (vs 26x in base case), we get a bear case target price of INR180 (downside of 36% to CMP) based on FY19 EPS (v/s base case target price of INR338, upside of 20%).

Exhibit 44: Bear case scenario

	FY17E	FY18E	FY19E
Sales (INR m)	10,404	11,129	11,635
Sales growth (%)	12.3	7.0	4.5
EBITDA (INR m)	1,748	1,758	1,745
EBITDA Margin (%)	16.8	15.8	15.0
EBITDA growth (%)	12.9	0.6	-0.8
PAT (INR m)	1,046	1,075	1,088
PAT Margin (%)	10.1	9.7	9.3
PAT growth (%)	30.4	2.8	1.2
EPS (INR)	7.2	7.4	7.5
Target multiple (x)			24
Target price (INR)			180
Upside/downside (%)			-36

Source: MOSL

Key risks

Increasing competition from international peers

Large international players – Givaudan, IFF, Firmenich and Symrise – collectively command a 58% share in Indian F&F market. Aggressive expansion initiatives by these players could dent SHKL's prospects.

Dependence on success of FMCG products

SHKL's progress is largely dependent on performance of FMCG products in which the company's flavors and fragrances are used as raw materials. Any slowdown in sales of such FMCG products would have an adverse impact on SHKL.

Concentrated sourcing of raw materials

The top 10 suppliers constituted 35% of SHKL's raw material requirements. Accordingly, sourcing of materials may be impacted in case of any negative event at the supplier end.

Foreign exchange risk

SHKL's overseas sales and a portion of raw material expenditures are in foreign currency, mostly USD, Euro and Yen. SHKL's received 37% of its revenue from exports and overseas sales in FY16. Thus, the company is highly exposed to the risk of fluctuation in foreign exchange rates.

Management overview

Mr. Ramesh Vinayak Vaze, Promoter and Managing Director

Ramesh Vaze, aged 74, is the Managing Director. He holds a Bachelor of Science degree from Mumbai University and has been with the company for more than 40 years. He is also a trustee of the Kelkar Education Trust. He has been Managing Director since August 2010.

Mr. Kedar Ramesh Vaze, WTD and Group CEO

Kedar Vaze, aged 41, is a Wholetime Director (WTD) and Group Chief Executive Officer. He holds a Master of Science degree in Organic Chemistry from the Indian Institute of Technology, Mumbai. He also received a Certificate of Participation in the Stanford Executive Program from the Graduate School of Business, Stanford University. He has been with SHKL for over 19 years and has been a board director since 2010. Mr. Vaze took over as Group CEO in October 2014, prior to which he held different positions within the company such as CTO and COO, responsible for all three business segments: Fragrance, Flavors and Ingredients.

Mr. B. Ramkrishnan, Director, Strategy

Mr. Ramkrishnan took over as Director, Strategy, in October 2014. He is responsible for the company's long-term strategy development, M&A, and equity/debt raising activities. Previously, he was Group CEO, responsible for SHKL's business across geographies. Mr. Ramkrishnan has been with the company since 2010 and has three decades of experience. Prior to SHKL, he was CEO at Privi Organics and also headed Givaudan's Flavor business. He holds a degree in Chemical Engineering.

Mr. Tapas Majumdar, VP and Group CFO

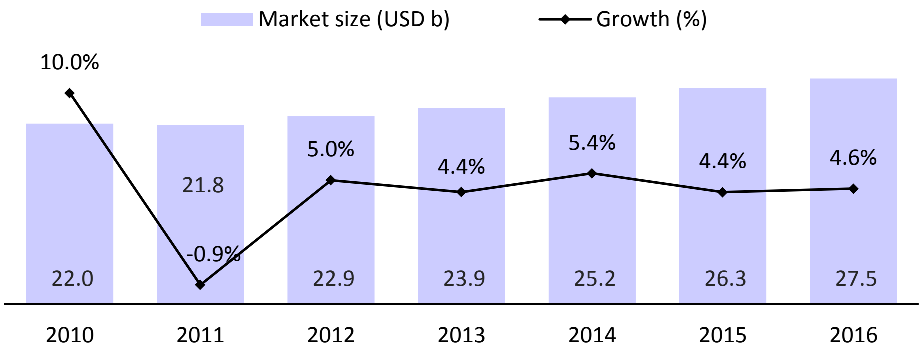
Mr. Majumdar has been Group CFO since 2012. He has 30 years of experience and is a qualified CA, CS. He is also a certified public accountant (CPA) from the American Institute of Certified Public Accountants (Delaware). Prior to joining our Company, he worked with organizations like A. F. Ferguson & Co., Indian Aluminium Company Limited, Hindustan Unilever Limited, GlaxoSmithKline and Dubai Aluminium Company Limited etc.

Industry overview

Global F&F industry estimated at USD28b

The global F&F industry is valued at USD28b, with an almost equal split between fragrance and flavor. The industry has grown at a CAGR of 4.7% by 2016 to reach USD27.5b. In CY13, the global F&F industry derived ~57% of revenues from North America and Western Europe, while rest of the world contributed ~43%.

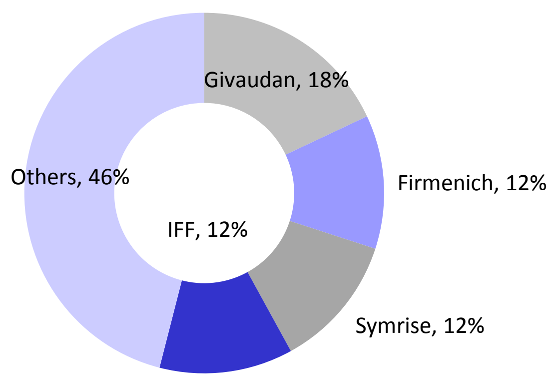
Exhibit 45: Global F&F industry posted CAGR of 4.8% over CY11–16



Source: Company, MOSL

While the global F&F industry is highly fragmented with several players, there is increased consolidation among larger companies. In CY13, the top 12 F&F companies held approximately 83% (64% in CY00) of the global F&F industry. Of these, the top four – Givaudan SA, Firmenich, International Flavors and Fragrances, Inc. (IFF) and Symrise AG – individually accounted for more than 10% share, and collectively constituted 54%. The remaining 8 companies had individual market share of 1–10%, and 26% collectively. Regional companies comprised the remaining.

Exhibit 46: Givaudan – leader in the global market (18% share)

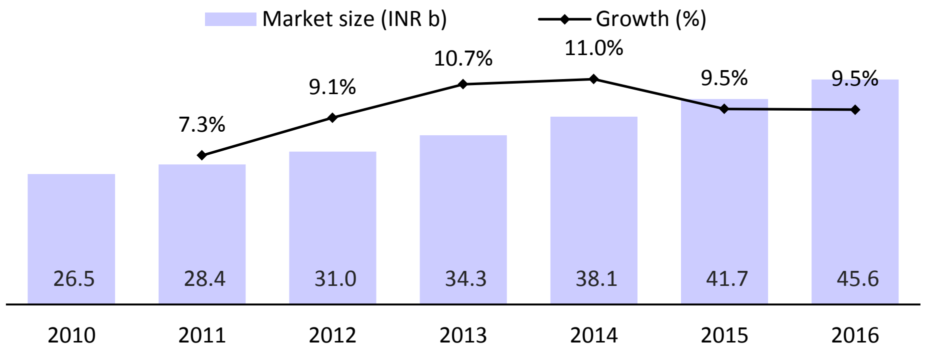


Source: Company, MOSL

Indian F&F industry valued at INR46b

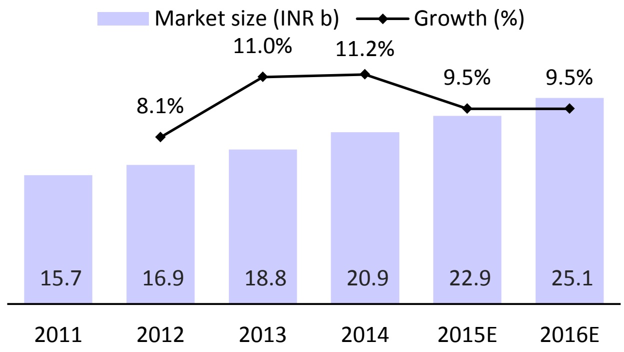
F&F products are key components in diverse FMCG products. The Indian F&F industry's total market size was estimated at INR46b (INR25b – fragrance, INR21b – flavor) in terms of value. Fragrance market and flavor market both registered CAGR of 10% CY11–16. Imports and exports rose 15.1% (to INR3.9b) and 17.2% (to INR4.9b), respectively, in CY14.

Exhibit 47: Indian F&F market registered CAGR of 10% over CY11–16



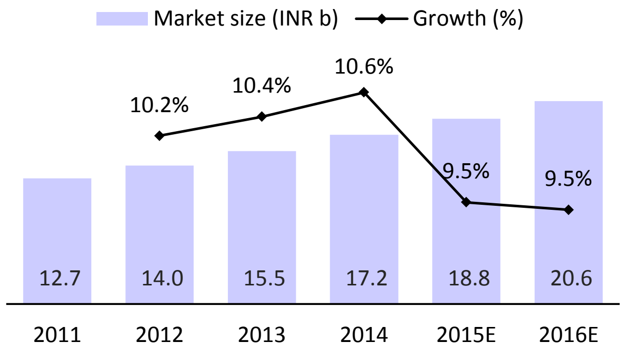
Source: Company, MOSL

Exhibit 48: Indian fragrance industry grew at CAGR 10%...



Source: Company, MOSL

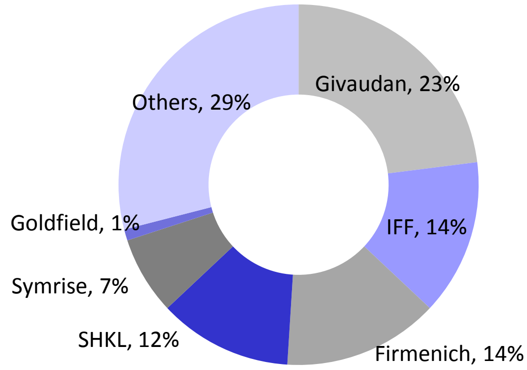
Exhibit 49: ...while flavor industry rose 10% over CY11–16



Source: Company, MOSL

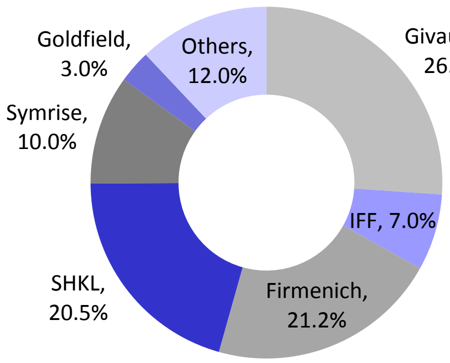
More than 1,000 companies, ranging from MNCs and large Indian industrial houses to small-scale units and local manufacturers, operate in the Indian F&F industry. Large domestic industrial houses with several decades of experience are fewer in number. In CY13, the top five companies operating in the Indian F&F industry – Givaudan SA, Firmenich, IFF, SHKL and Symrise SA – collectively held a market share of ~70%. Major players are able to sustain competition by leveraging on their resources and R&D facilities to produce high-quality customized products, particularly for quality-conscious multinational customers.

Exhibit 50: Givaudan – largest player in Indian F&F market with 23% share (CY13)



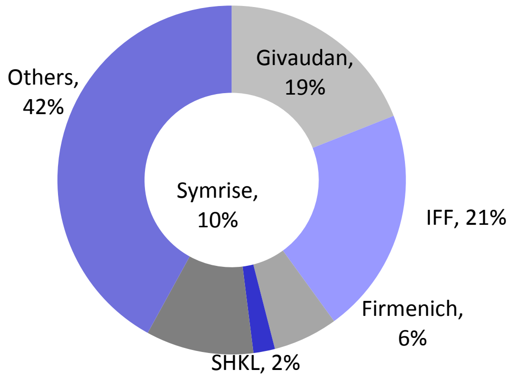
Source: Company, MOSL

Exhibit 51: SHKL's share in fragrance market (20.5%) in 2013



Source: Company, MOSL

Exhibit 52: SHKL's share in flavor market (2%) in 2013



Source: Company, MOSL

Financials and valuations

Consolidated - Income Statement (INR Million)

Y/E March	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E
Total Income from Operations	**5,700**	**6,662**	**7,614**	**8,355**	**9,266**	**10,386**	**12,257**	**14,294**
Change (%)	24.0	16.9	14.3	9.7	10.9	12.1	18.0	16.6
EBITDA	**1,044**	**1,180**	**1,370**	**1,178**	**1,549**	**1,797**	**2,341**	**2,930**
Margin (%)	18.3	17.7	18.0	14.1	16.7	17.3	19.1	20.5
Depreciation	173	173	188	293	294	205	221	232
EBIT	**871**	**1,007**	**1,183**	**885**	**1,255**	**1,591**	**2,120**	**2,699**
Int. and Finance Charges	278	218	175	185	144	68	35	11
Other Income	40	15	78	246	96	115	138	165
PBT bef. EO Exp.	**633**	**805**	**1,085**	**945**	**1,206**	**1,638**	**2,223**	**2,853**
EO Items	0	-23	0	0	0	0	0	0
PBT after EO Exp.	**633**	**782**	**1,085**	**945**	**1,206**	**1,638**	**2,223**	**2,853**
Current Tax	222	250	328	286	449	557	756	970
Deferred Tax	-33	-7	-33	-45	-45	0	0	0
Tax Rate (%)	29.9	31.0	27.1	25.5	33.5	34.0	34.0	34.0
Less: Minority Interest	32	-76	0	0	0	0	0	0
Reported PAT	**412**	**616**	**791**	**704**	**802**	**1,081**	**1,467**	**1,883**
Adjusted PAT	**412**	**631**	**791**	**704**	**802**	**1,081**	**1,467**	**1,883**
Change (%)	-10.0	53.3	25.3	-11.0	13.9	34.8	35.7	28.3
Margin (%)	7.2	9.5	10.4	8.4	8.7	10.4	12.0	13.2

Consolidated - Balance Sheet (INR Million)

Y/E March	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E
Equity Share Capital	52	120	132	1,323	1,446	1,446	1,446	1,446
Total Reserves	2,640	4,077	4,669	3,682	6,182	6,911	7,901	9,171
Net Worth	**3,713**	**4,720**	**4,810**	**5,097**	**7,628**	**8,357**	**9,347**	**10,617**
Deferred Tax Liabilities	12	6	-19	-50	-91	-91	-91	-91
Total Loans	2,307	1,518	2,111	2,427	855	655	123	123
Capital Employed	**6,031**	**6,244**	**6,902**	**7,474**	**8,392**	**8,921**	**9,379**	**10,649**
Gross Block	3,451	3,655	4,233	4,573	4,914	5,357	5,699	5,887
Less: Accum. Deprn.	2,099	2,259	2,548	2,612	3,026	3,231	3,452	3,684
Net Fixed Assets	**1,352**	**1,395**	**1,686**	**1,961**	**1,889**	**2,126**	**2,247**	**2,203**
Goodwill on Consolidation	709	707	828	776	793	793	793	793
Capital WIP	278	432	503	105	181	334	142	103
Total Investments	**334**	**410**	**2**	**0**	**345**	**345**	**345**	**345**
Curr. Assets, Loans&Adv.	**4,383**	**4,760**	**5,573**	**6,502**	**7,285**	**7,988**	**9,003**	**10,887**
Inventory	2,316	2,254	2,788	3,175	3,369	3,883	4,401	4,950
Account Receivables	1,307	1,719	1,794	1,945	2,339	2,589	3,056	3,564
Cash and Bank Balance	237	332	415	759	822	671	549	1,210
Loans and Advances	523	456	576	622	754	845	997	1,163
Curr. Liability & Prov.	**1,024**	**1,461**	**1,689**	**1,870**	**2,101**	**2,664**	**3,151**	**3,683**
Account Payables	497	757	879	977	1,292	1,412	1,630	1,868
Other Current Liabilities	426	592	527	553	600	672	793	925
Provisions	102	112	283	340	209	580	728	890
Net Current Assets	**3,359**	**3,299**	**3,885**	**4,632**	**5,184**	**5,324**	**5,852**	**7,204**
Appl. of Funds	**6,031**	**6,244**	**6,902**	**7,474**	**8,392**	**8,921**	**9,379**	**10,649**

E: MOSL Estimates

Financials and valuations

Ratios

Y/E March	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E
Basic (INR)								
EPS	**3.1**	**4.8**	**6.0**	**5.3**	**5.5**	**7.5**	**10.1**	**13.0**
Cash EPS	4.0	5.9	7.4	7.5	7.6	8.9	11.7	14.6
BV/Share	28.1	35.7	36.4	38.5	52.7	57.8	64.6	73.4
DPS	0.0	0.6	1.1	1.1	1.5	2.0	2.7	3.5
Payout (%)	1.1	15.6	22.2	25.6	32.6	32.6	32.6	32.6
Valuation (x)								
P/E			47.1	53.0	50.8	37.7	27.8	21.7
Cash P/E			38.1	37.4	37.2	31.7	24.2	19.3
P/BV			7.8	7.3	5.3	4.9	4.4	3.8
EV/Sales			5.1	4.7	4.4	3.9	3.3	2.8
EV/EBITDA			28.5	33.1	26.4	22.7	17.2	13.5
Dividend Yield (%)	0.0	0.2	0.4	0.4	0.5	0.7	1.0	1.2
FCF per share	4.1	5.2	-0.5	3.0	4.3	2.4	5.4	7.7
Return Ratios (%)								
RoE	12.6	15.0	16.6	14.2	12.6	13.5	16.6	18.9
RoCE	16.0	16.7	19.2	15.6	16.9	19.5	24.4	28.3
Working Capital Ratios								
Asset Turnover (x)	0.9	1.1	1.1	1.1	1.1	1.2	1.3	1.3
Inventory (Days)	148	123	134	139	133	136	131	126
Debtor (Days)	79	88	81	80	85	84	84	84
Creditor (Days)	32	41	42	43	51	50	49	48
Leverage Ratio (x)								
Debt/Equity	0.6	0.3	0.4	0.5	0.1	0.1	0.0	0.0

Consolidated - Cash Flow Statement

(INR Million)

Y/E March	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E
OP/(Loss) before Tax	630	785	1,088	945	1,206	1,638	2,223	2,853
Depreciation	173	173	188	293	294	205	221	232
Interest & Finance Charges	246	201	146	175	130	-47	-103	-154
Direct Taxes Paid	-204	-259	-343	-285	-394	-557	-756	-970
(Inc)/Dec in WC	-122	103	-729	-375	-374	-291	-650	-691
CF from Operations	**724**	**1,005**	**350**	**753**	**863**	**948**	**935**	**1,270**
Others	9	26	-29	-136	1	0	0	0
CF from Operating incl EO	**733**	**1,031**	**321**	**617**	**864**	**948**	**935**	**1,270**
(Inc)/Dec in FA	-190	-344	-386	-219	-238	-595	-150	-150
Free Cash Flow	**543**	**687**	**-65**	**399**	**626**	**353**	**785**	**1,120**
(Pur)/Sale of Investments	-187	0	0	3	4	0	0	0
Others	11	14	-211	17	-331	115	138	165
CF from Investments	**-366**	**-330**	**-597**	**-199**	**-565**	**-480**	**-12**	**15**
Issue of Shares	0	10	0	-38	1,956	0	0	0
Inc/(Dec) in Debt	-216	-259	527	322	-1,589	-200	-532	0
Interest Paid	-253	-210	-161	-183	-162	-68	-35	-11
Dividend Paid	-101	-114	0	-176	-441	-352	-478	-613
Others	-3	-34	-6	0	0	0	0	0
CF from Fin. Activity	**-573**	**-607**	**360**	**-75**	**-236**	**-620**	**-1,045**	**-624**
Inc/Dec of Cash	**-206**	**94**	**84**	**344**	**63**	**-152**	**-122**	**661**
Opening Balance	443	237	332	415	759	822	671	549
Closing Balance	**237**	**332**	**415**	**759**	**822**	**671**	**549**	**1,210**

E: MOSL Estimates

NOTES

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