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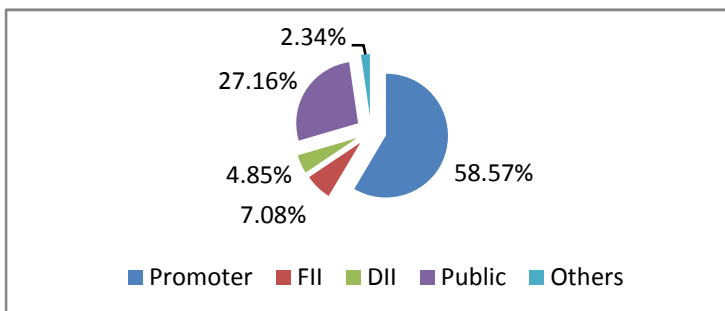
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Investors' Delight: S H Kelkar And Company Limited (SHK) - "BUY"

Sep. 12, 2021

| | |
|--------------------------|--|
| CMP | Rs. 168.35 (Face value: Rs. 10) |
| Book value | Rs. 67.29 per share |
| Recommendation | BUY |
| Target price | Rs. 220 |
| Upside | 30.68% |
| 52 Week High/Low | Rs. 189.80 /Rs. 76.00 |
| Beta | 0.99 |
| Market Cap | Rs. 2,379 Crore |
| EPS (TTM)/P/E(x) | Rs. 12.42/ 13.55x |
| NSE/BSE code | SH KELKAR /539450 |
| Included | S&P BSE 500 |
| Bloomberg code | SHKL:IN |
| Promoter holding | 58.57% |
| Price performance | 1 month: 3.57 %, 3 months: 8.96%, YTD: 39.71%, 1 Year: 110.04 %, 3 years: -27.28 % |

Shareholding pattern



| Particulars (Rs. Crore) | FY21 | FY20# | FY19 | FY18 |
|--------------------------|--------|--------|--------|--------|
| Revenue | 1,321 | 1,114 | 1,048 | 1,025 |
| EBITDA | 239 | 160 | 141 | 159 |
| EBITDA (%) | 18.09 | 14.36 | 13.45 | 15.51 |
| Profit after tax | 144 | 36 | 87 | 92 |
| PAT margin (%) | 10.9 | 3.23 | 8.30 | 8.97 |
| Equity share cap. | 141.32 | 141.32 | 144.62 | 144.62 |
| Reserves | 810 | 683 | 719 | 712 |
| Networth | 951 | 824 | 864 | 857 |
| Total Debt | 518 | 365 | 342 | 172 |
| Debt/Equity (x) | 0.54 | 0.44 | 0.40 | 0.20 |
| EPS (Rs.) | 10.18 | 2.53# | 6.12 | 6.49 |
| P/E (x) | 17 | 67 | 28 | 26 |
| RoNW (%) | 15.14 | 4.37 | 10.06 | 10.74 |

Note: # FY20 was affected by Impairment of plants and machineries in Netherlands. This resulted in a one-time exceptional expense of Rs. 36.5 crore in FY20, most of which is a non-cash impairment charge. This, impacted PAT and RoNW in FY20

Impressive background

S H Kelkar and Company Limited (SHK) is the largest Indian-origin Fragrance & Flavour Company in India. It has a long-standing reputation in the fragrance industry developed in 96 years of experience. 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. Its flavour products are used as a raw material by producers of baked goods, dairy products, beverages and pharmaceutical products. The Company offers products under SHK, Cobra and Keva brands. The Company's Promoter Kedar Vaze, has over 20 years of experience and strong domain expertise.

The Company has a strong and dedicated team of scientists, perfumers, flavourists, evaluators and application executives at its facilities and five creation and development centres in India, Singapore, Amsterdam, Indonesia and Italy for the development of fragrance and flavour products. The research team has developed 17 molecules over the last five years. The Company has filed 18 patent applications in respect of molecules, systems and processes developed by it, of which 2 have been commercially exploited in deodorant and fine fragrance categories. Over the years, SHK has developed a vast product portfolio of fragrances and flavour products for the FMCG, personal care, pharmaceutical and food & beverages industry. The Company has a diverse and large client base including leading national and multinational FMCG companies, blenders of fragrances & flavours and fragrance & flavour producers. The group has an established clientele across industries such as fast moving consumer goods (FMCG), dairy, beverages, pharmaceuticals, and tobacco with over 4,100 customers. The Company's strategy is focussed on value addition and product differentiation to tap the market opportunity.

Investment recommendation and rationale

We recommend a "BUY" and assign a target price of Rs. 220 (P/E of 17x at estimated FY22 EPS of Rs. 12.94) due to the following factors: a) the Indian fragrances and flavours industry is one of the fastest growing industries globally presenting tough competition to China in terms of exports, b) SHK is the largest Indian-origin Fragrance & Flavour Company in India, c) Promoters having good experience and strong domain expertise, d) strong research and development (R&D) capabilities with R&D units at Mumbai - India , Amsterdam, Milan, Indonesia and Singapore, d) it is the only Company of Indian origin to file patents in the field of Fragrance and Novel Aroma Molecules. These patented molecules along with SHK's strong & well-known expertise in the Indian fragrance industry paved the way for a big order win from a FMCG MNC; d) Company's business model well suited to the new age; e) strong growth prospects with faster economic recovery, f) significant pipeline of innovation, g) successful integration of Italy based Creative Flavours & Fragrances (CFF) will help SHK to cater to European Markets, h) low capital intensive business – cash flow generation remains a key strength of SHK's business model, i) positive operating cashflow in last ten years, j) with robust inventory management, the Company is able to maintain margin amidst challenging raw material scenario, k) strong Balance Sheet with net debt/ equity of 0.40x, l) the Company has no major CAPEX plans on hand and its focus remains on generating healthy free cash flows, m) SHK enjoys decent return ratios, n) strong Q1FY22 result amidst COVID-19 crisis, o) Company has a clear strategy to grow through acquisitions in the future (to add geography or customer base of growing customers which it expects that in the future will continue to grow at a double-digit CAGR) , p) the Management is confident on growth in post COVID-19 pandemic era.

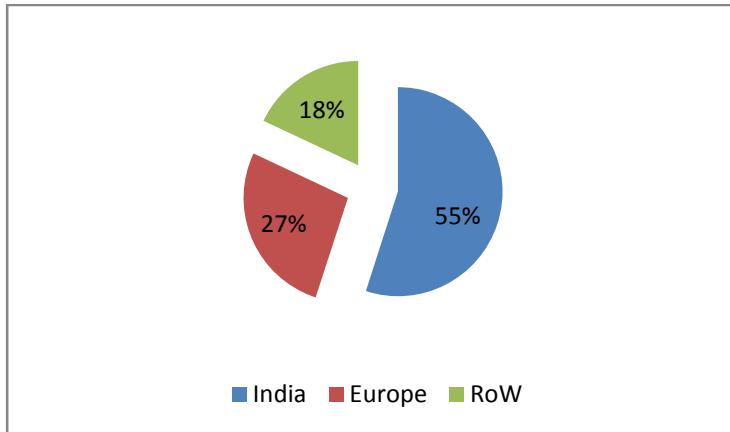
Research report written by - Akash Jain, MBA (Financial Markets), Vice – President Research

Did you know?

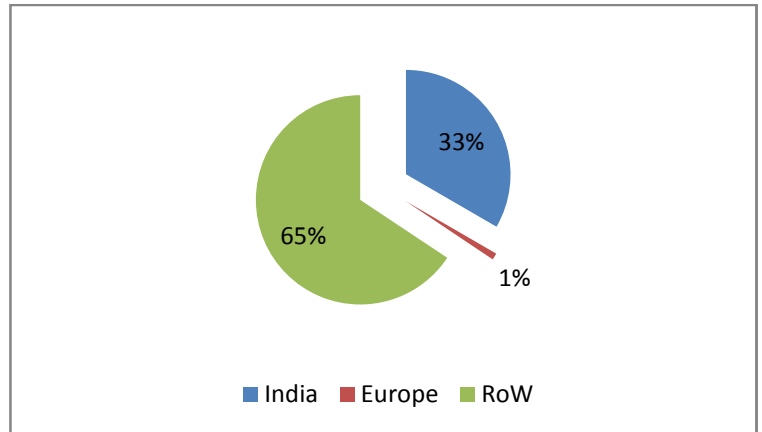
- ❖ SHK is the largest Indian origin Fragrance and Flavours Company in India..
- ❖ It is the only Company of Indian origin to file patents in the field of Fragrance and Novel Aroma Molecules owing to its..
- ❖ Strong R&D capabilities..
- ❖ Company has a strong and dedicated team of scientists, perfumers, flavourists, evaluators and application executives at its facilities..

Geographical revenue mix as on Q1FY22

Fragrance division



Flavour division



Fragrance division

| Particulars (Rs. Crore) | Q1FY22 | Q1FY21 | YoY (%) | Revenue YoY growth | Q1FY22 | Particulars (Rs. Crore) | Q1FY22 | Q1FY21 | YoY (%) | Revenue YoY growth | Q1FY22 |
|-------------------------|--------|--------|----------|--------------------------------|--------|-------------------------|--------|--------|---------|--------------------------------|--------|
| Topline | 330.6 | 176.5 | 87.3 | India | 49.3% | Topline | 24.3 | 14.9 | 62.8 | India | 44% |
| EBIT | 28.7 | 25.9 | 10.8 | Europe | 352.3% | EBIT | 3.1 | -0.1 | - | Europe | -31.4% |
| EBIT (%) | 9 | 15 | -599 bps | Rest of the world (ROW) | 72.6% | EBIT (%) | 13 | - | - | Rest of the world (ROW) | 80% |

Source: Company

Operational performance

Fragrance division

- 1) The segment reported steady performance. Although operating constraints due to covid-induced disruptions impacted sequential growth, client engagements and wins across FMCG space remained stable during Q1FY22.
- 2) In addition, healthy performance from the international markets assisted growth.
- 3) Lower revenues and write-off of one-time R&D expense resulted in lower EBIT margins

Growth drivers

- 1) Rising brand awareness
- 2) Growth in use of personal care products
- 3) Rapidly emerging newer categories: stationery, toys, household care, fabric
- 4) Growing popularity of naturals segment Increasing disposable income
- 5) Upscaling of lifestyle of the middle class population Increasing product affordability led by low-priced perfumes and deodorants

Flavour division

- 1) On a year-over-year basis, revenues were higher on account of a lower base
- 2) Sequentially, pandemic-induced operating constraints affected sales in the flavour division
- 3) Margins in Q1FY22 improved owing to better product mix and improvement in raw material situation
- 4) The Company is increasing its focus on savoury market with seasonings which has witnessed good consumer response and on encapsulated powder market which has a lot of scope for growth

The flavours market in India is nascent with low penetration. Several categories in the segment are witnessing rapid growth and the Company is looking to create a meaningful presence in the rapidly growing markets like food. The Company is increasing its focus on savoury market with seasonings which has witnessed good consumer response, and on encapsulated powder market which has a lot of scope for growth. The demand in naturals segment and health and wellness segment is rapidly growing from both start-ups and established manufacturers. The market is small but growing at a very rapid pace. The Company has a big range available in the market and is upbeat about future growth prospects. The demand of flavours in home use segment has seen significant growth led by baking and home cooking becoming more popular with self-cooking being preferred over ordering food amidst COVID-19 pandemic. The Company has a strong pipeline of products and are also increasing focus on providing customised solutions to key clients. The expert team is working on promoting use of artificial intelligence (AI) to speed up the process of innovating novel flavours. This is expected to be a game changer in the field of flavours in the coming decade. The Company has completely geared itself for the restrictions that may be imposed owing to future infection waves of COVID-19.

Growth drivers

- 1) Rise in the demand for unique flavours
- 2) Growing popularity of exotic flavours
- 3) Natural flavours emerging as the new favourite in all categories: food, oral care, etc.
- 4) Evolving consumer palate due to growing awareness and availability of options
- 5) Growing awareness of health and nutritional needs Changing lifestyle of consumers Increase in demand for convenience food

Ratings

Crisil has re-affirmed ratings on the total bank loan facilities worth Rs. 187 Crore of SH Kelkar . Long term rating: Crisil AA-/Stable (Reaffirmed)

Subsidiaries and Joint Ventures

As on 31 March 2021, the Company had the following subsidiaries and joint ventures in India, United Kingdom, the Netherlands, Italy, Singapore, China:

- 1) Keva Fragrances Pvt. Ltd.
- 2) Keva Flavours Pvt. Ltd.
- 3) Creative Flavours & Fragrances S.p.A, Italy
- 4) Keva UK Ltd., United Kingdom
- 5) Keva Europe BV, the Netherlands
- 6) Keva Fragrance Industries Pte. Ltd., Singapore
- 7) V N Creative Chemicals Pvt. Ltd. (step-down subsidiary)
- 8) Tanishka Fragrance Encapsulation Technologies LLP (step-down subsidiary) (under process of strike-off)
- 9) PFW Aroma Ingredients B.V., the Netherlands (step-down subsidiary) n PT SHKKEVA Indonesia, Indonesia (step-down subsidiary)
- 10) Anhui Ruibang Aroma Company Ltd, China (step-down subsidiary)
- 11) Keva Italy Srl (step-down subsidiary)
- 12) Purandar Fine Chemicals Pvt. Ltd. (Joint Venture)

Integration of Creative Flavours & Fragrances (CFF)

- 1) CFF, a leading fragrance company located close to Milan (Italy), has established itself as the fragrance supplier of choice for several Italian brands in fine fragrances, personal care and home care categories. It has 80 employees including creative teams (perfumers, evaluators, marketing, laboratory technicians) and operational and administrative teams (manufacturing, warehouses, finance, human resources). The production is highly automated, almost to extent of 95 percent, with several dosing robots suited to different batch sizes. CFF manufactures fragrance batches of 1kg to 10 tonnes with an annual capacity of 5,000 tonnes.
- 2) The perfumers of CFF create fragrances based on briefs received from the customers. The request can also be met with fragrances coming from a large collection of several thousands of fragrances. Additionally, the Company has a contract manufacturing activity for major consumer goods multinationals. Robust quality assurance system ensures superior product quality. The dosing robots provide high accuracy with no defaults.
- 3) With the completion of acquisition of 100 percent equity stake in Creative Flavours & Fragrances SpA (CFF) in FY 2020-21, CFF has been de-recognised as joint venture and recognised as wholly-owned subsidiary effective 01 August 2020 and thus, its financials have been fully consolidated in the Company's consolidated financial statements from 01 August 2020 onwards.
- 4) Revenue contribution is dominated by Italy (75 percent) catered to by a local sales team and some regional agents. European countries and Middle East contribute 20 percent and 5 percent respectively, serviced through a network of agents. The fragrances are mainly used in homecare products (42 percent) like air fresheners or cleaners, in fabric care products (22 percent) like laundry fragrance boosters or softeners, in beauty care products (22 percent) like shampoos or personal wash and in fine fragrance (5 percent).
- 5) Despite Italy having an aging population and an inherent growth is around 1 percent to 2 percent, the consumer spending per capita in Fragrance and FMCG is quite high in these markets compared to market like India. And normally, when you look at the premium product or niche products, there are many products which are big brands and then there are many smaller brands. In a low growth and in a more difficult economic growth situation, actually the smaller brands are growing faster than the big global brands which is the reason of strong growth in CFF.

Synergies from Keva

- 1) Keva has unique raw materials, allowing CFF perfumers to create memorable signature fragrances. High standard management processes and software of Keva deployed to CFF will allow better control and efficiency. The strategy is to consolidate CFF market share in Italy and to expand to select targeted areas in Europe. The Amsterdam Centre of Excellence, focussed on luxury products (fine fragrance and high-end beauty care products), will allow Keva to penetrate new types of customers in Europe with fragrances designed and manufactured in Europe.
- 2) With a strong parentage and long standing presence of nearly 100 years in the Fragrance & Flavour Industry, Keva continues to be a leading innovator of sensorial experiences, co-creating unique products that consumers taste, smell or feel in fine fragrances and cosmetics, detergents and household goods, food and beverages. Keva's flavour and fragrance compounds combine a number of ingredients to produce proprietary formulae created by its flavourists and perfumers.
- 3) Keva has become the exclusive distributor for Santalol - Isobionics' product in India. The new fragrance ingredient is the first joint product from BASF and Isobionics and is now available for the Indian market through the Company. The new fragrance ingredient is an alternative to sandalwood oil and is produced by a biotechnological basis from renewable raw materials.

Good Q1FY22 result amidst COVID-19 crisis

- 1) Commenting on the performance, **Mr. Kedar Vaze, Whole Time Director and Group CEO at S H Kelkar And Company said**, “We have reported a resilient performance during the quarter despite a challenging macroenvironment owing to pandemic-induced lockdowns and restrictions. While we saw broader operating constraints during the period, our client engagements and wins across the FMCG space remained stable. On the international business front, we are happy to share that CFF has delivered a healthy performance during the quarter on the back of improved demand and volume offtake in the European markets. On a consolidated basis, our revenue from operations grew by 85.4 percent on a YoY basis and on a like to like basis, it grew by 44.4 percent on YoY basis, on account of a lower base in the corresponding period last year. We are witnessing cost pressures on account of inflation in raw materials and logistic & supply chain issues, globally. Accordingly, we have undertaken suitable price hikes, which in combination with our prudent inventory management practices enabled us to maintain gross margins within healthy levels. EBITDA margins moderated considering lower revenues reported during the quarter as well as one-time additional write-off of R&D expenses. From a demand standpoint, we continue to witness stable wins and enquiries across customers. While there are concerns with regards to the macro-environment given the uncertainties related to the pandemic, internally, we have several promising growth initiatives in place. In a normalized environment, we are confident that our strategic growth levers along with our robust business model should enable us to report healthy performance going forward.”
- 2) On a consolidated basis, the Company's revenue from operations stood at Rs. 354.9 crore. The performance includes consolidation of CFF and Nova in Q1 FY22 and is not comparable year-on-year. SHK concluded the full acquisition of Creative Flavours and Fragrances SpA (CFF) w.e.f July 28, 2020 and Nova Fragranze S.R.L (Nova) w.e.f. April 1, 2021. Q1 FY22 results includes consolidation of CFF and Nova in SHK's performance. SHK anticipates steady improvement in demand for both entities going forward. On a like-to-like basis, revenues grew by 44.4 percent in Q1FY22 on YoY basis. This was on account of lower base in the corresponding quarter last year.
- 3) On the EBITDA front, lower revenues moderated EBITDA performance. In addition, the Company's other expenses during Q1FY22 were higher as it included one-time prepayment of R&D CWIP amounting to Rs. 12.9 crore on account of accounting policy change. This change was mandated due to more and more exchange of IP usage between India and Italy operations. Without this adjustment EBITDA margin stood at 16.1 percent and PAT stood at Rs. 27 crore. Reported PAT stood at Rs. 81.4 crore as against Rs. 15.1 crore. Q1FY22 PAT includes reversal of additional tax provision aggregating Rs. 64.5 crore for A.Y 2016-17 to A.Y. 2020-21 in Q1 FY22, consequent to Income Tax Appellate Tribunal (ITAT) order dated August 02, 2021. Excluding the reversal of additional tax provision, the adjusted PAT stood at Rs. 16.9 crore, higher by 12.2 percent.
- 4) The Management expects that the future quarters should compensate to the extent of this quarter. On a full-year basis, the Management is positive to achieve EBITDA margins of 19-20 percent. The Management is hopeful that the second half of FY22 will be a normal year in India particularly and that should see the Company doing strong growth in Q2FY22.

Key recent developments

1) Order won from a large global MNC player

SHK has won an order in the Home Care segment from a large global MNC player in the domestic FMCG market. Driven by robust R&D capabilities and innovation strategies, SHK is the only Company of Indian origin to file patents in the field of Fragrance and Novel Aroma Molecules. These patented molecules along with SHK's strong & wellknown expertise in the Indian fragrance industry paved the way for this order win. This strategic association will enhance the Company's competitive advantage in the domestic markets and will enable SHK to build its presence in the high-potential global MNC space in the longer term.

2) Mahad Unit – Operational Update

On July 22nd, SHK temporarily suspended operations at its unit in Mahad on account of unprecedented rains, which caused severe flooding and major power outage in the area. The Company had undertaken all necessary steps to resume operations at the earliest. Accordingly, the Company's operations and production activities at the Mahad unit have restarted in a calibrated manner from September 1, 2021 onwards. With business continuity plan implemented during the period, SHK continued to cater to customers' demands without any major disturbances. The financial impact due to this disruption was nominal. This recommencement of operations follows receipt of all necessary approvals and is in line with the survey conducted by the Insurance company.

3) Update on ITAT order

In respect of the tax appeal in the matter of Keva Fragrances, wholly owned subsidiary of SHK, the Income Tax Appellate Tribunal (ITAT), vide its order dated August 2, 2021 has set aside the order of the Commissioner of Income Tax and has directed the Assessing Officer to allow the amortisation of goodwill as an eligible expenditure. ITAT has also quashed the departmental appeal on the other two issues favoured by CIT earlier viz. allowing set off of brought-forward losses and deletion of additions made u/s. 56(2)(viiib). Consequent to the said order, the group has reversed the additional tax provision aggregating Rs. 64.5 crore for A.Y 2016-17 to A.Y. 2020-21 in the quarter ended 30 June 2021. The Group has given the impact of the order in the June 2021 quarter since ITAT is the ultimate fact finding authority and the question of law has been well settled in favour of assessee in one of the Supreme Court judgements.

Industry Overview

Global flavour and fragrance industry

- 1) The global flavour and fragrance market is extremely competitive and concentrated, with key players competing for major market share and small regional players catering to smaller regions. The key players are majorly based in North American and European regions, which are also the dominant markets. Expectations for growth recovery are highest from these markets basis their recovery from the economic downturn.



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- 2) As per IMARC research, the global flavours and fragrances market reached a value of US\$ 31.7 billion in 2020 as compared to US\$ 29.8 billion in 2019. The growth was driven by changing food preferences especially of the younger population and the shift towards low-calorie foods and beverages. Fast-paced growth in the processed food and beverage industry catalysed by a rising global population and rapid urbanisation has been the major driving force for the global flavours and fragrances market. Further, rising incomes, changing lifestyles and increasing consciousness towards physical appearance which has boosted the market for personal care products has been, in turn, creating a strong demand for flavours and fragrances market. Other growth drivers include rapidly-growing emerging markets, rising demand for organic and natural products, growing young population, improved lifestyles, dual income families, rising need for convenience etc. Rising demand for packaged foods, beverages, home care, personal care, cosmetics, toiletries, pharmaceuticals, and nutraceuticals has been leading to the growth in demand for flavours and fragrances market as well. The latest trend in the market is increased innovation led by growing demand for convenience food products.
- 3) With about 86 percent of consumers choosing taste over other food attributes, flavours have become an inevitable ingredient in the food industry. The new trend in the flavours segment is the use of smokey flavours in food items like snack foods, meats, seasonings, sauces, cheeses, honey and salt. This is also observed in some trending food items like desserts, beverages, soups, confectionery and various other sweet and savoury items, which is changing the market dynamics. Additionally, key players in food flavours industry are also focussing on developing natural smoked flavours to cater to the rising demand for the same in the market. Such new emerging trends have also been giving substantial boost to the growth of the flavours market. The rise in disposable income and changing lifestyle of consumers are fuelling the demand for high-end cosmetics, detergents, soaps, perfumes, and other household and personal care products. This, in turn, is contributing to the overall growth of the fragrance market. The COVID-19 pandemic had serious impact on the industry during the initial few months of market lockdowns and supply chain disruptions. However, countries rapidly adjusted their systems with the crisis and prioritised agricultural and food sectors during the pandemic, leading to quick recovery of the flavour and fragrance industry sales.

Source: Company

Outlook

- 1) The global flavours and fragrances market is poised to grow by US\$ 10.98 billion during 2020-2024, approximately at 6% CAGR, according to Technavio. The rising demand for personal care products and food-related products, growing dietary supplements and nutraceuticals market and rising demand for natural flavours and fragrances are likely to drive growth of the global flavours and fragrances market. The changing taste and preferences of consumers and their willingness to try and experience new varieties are some of the factors that will increase the demand for flavours and fragrances among different endusers.
- 2) Rapid rise of online sales and exponential growth in the pharmaceutical industry led by the COVID-19 pandemic further contribute to the rise in demand of flavours and fragrances.
- 3) The market growth is driven by the increasing launch of new products by vendors. Successful new product launches help in increasing the revenue inflow of vendors and also provide multiple options to buyers driving overall growth of the market. Asia-Pacific (APAC) region is expected to offer several growth opportunities mainly due to the presence of a huge consumer base, rising working women population, growing demand for international cuisines and penetration of key vendors.

Source: Company

Indian fragrances and flavours industry

- 1) Owing to the sheer size of the population, India and China are the fastest growing consumption as well as production markets in the fragrance and flavour industry. The industry is an ancillary industry to fast moving consumer goods, food processing and pharmaceutical industries. Despite constituting less than 1 percent of a product's volume and under average of 5 percent of its total cost of production, fragrances and flavours are instrumental in creating a distinct product association with the consumers. Even though natural fragrances are perceived to be safe, healthier and therapeutic, synthetic ingredients continue to dominate the Indian market as they are cheaper, long-lasting, emit strong fragrance and offer greater freedom of creativity to manufacturers.
- 2) There are over 1,000 small, medium and large size enterprises operating in this industry, both in organised and unorganised sector, ranging from multinational companies, large Indian industrial houses to small-scale industrial units and local manufacturers. An estimated 70 percent of the organised market in India comprises international players while the remaining market is catered by domestic players. The market is fairly consolidated with the top 5 players accounting for 65 percent of the total market share. The market is dominated by MNC players, with 4 global majors featuring in the Top 5 along with Keva. Keva holds the position of being the largest Indian origin player which is most adaptable to evolving consumer needs. India is approximately 3 percent of the global fragrances and flavour market despite having 20 percent of the world population. The Indian F&F industry is valued at approximately US\$ 1.4 billion in 2019 with exports forming almost 12% of the total production. The split between flavours and fragrances segments is almost 50:50. The growing demand for foods, cosmetics, personal care and household care products is expected to be the major driving factor for the growth of aroma chemicals market
- 3) The Indian fragrances and flavours industry is one of the fastest growing industries in the segment globally presenting tough competition to China in terms of exports. However, COVID-19 impacted the industry growth with fear of losing its ground to China as the latter continued operating in full swing. The extended lockdown disrupted the supply chain and as a result affected the production and exports. Estimated production loss for India's fragrance and flavour industry during the lockdown was 20-25% but it is expected to be compensated by the rise in demand post lockdown. The Indian fragrance and flavour market is estimated to grow at 15% CAGR to reach US\$ 3.3 billion during 2019-2025. India is a key destination for global players given the cost competitiveness, strong supply base for natural ingredients and an access to a large consumption market. Low rural penetration of FMCG products, growing aspirations of the middle class Indians, excessive and growing demand



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for personal care and processed foods, easy access to internet, growing young population which demands options and a rapidly evolving pharmaceutical market present tremendous growth opportunities for the fragrance and flavour industry.

Source: Company

Opportunities in the sector

The Fragrances and Flavours Association of India (FAFAI) is soon expected to inaugurate a state-of-the-art R&D centre in Mumbai worth US\$ 1,50,000 to further the growth of the domestic fragrance and flavour industry. Led by COVID-19 pandemic, the demand for personal care products, cleansing products and sanitisers is witnessing a spike, giving boost to the fragrance market. Companies are strategizing ways to strengthen their presence and cater to increasing demand from tier II and tier III cities. In the fragrance market, companies are launching a range of affordable deodorants, perfumes, and colognes for consumers willing to spend on fragrances to stay well groomed. Companies are exploring newer variants with different odour and taste, thereby creating product differentiation to spur consumption. As people are willing to experiment with new, more exotic flavours and fragrances rather than opting for basic ones, there has been a steady rise in innovation in the fragrance and flavour industry. Consumers are becoming progressively health conscious and preferring natural products, providing ample opportunity for health and wellness food flavours like Blueberry, Grape, Aloe Vera, Pine bark, Soy, etc. The concept of natural and traditional Indian herb extracts is also gaining significance in fragrance markets.

Outlook - Indian fragrances industry

There has been a tremendous rise in derived demand for fragrances with the increasing demand for fragranced personal care, laundry care and household care products. In addition, fragrances are present in a number of other commercial products such as tissues, candles, baby diapers, etc. Fragrances have also made their way into scented stationeries, and trash bags. Marketers sell products with fragrances as their main selling point with entire advertising campaigns revolving on the fragrance of a product. The consumer preference, too, has been towards more powerful and long-lasting fragrances. All these factors together bode well for the entire fragrance industry. Many of the most ground breaking developments in the fragrance industry have emerged from the realm of artificial intelligence (AI). With continued technological advancements and new innovative applications of those technologies, perfumers are now able to create unique, digital fragrances, making AI the latest and upcoming trend in the fragrance industry.

Outlook - Indian flavour industry

Rapidly rising incomes and urbanisation is spurring interest in convenient packaged foods and fast food. Packaged goods require high flavour loadings to prevent the loss of taste that occurs during large-scale manufacturing. The growth in food and beverage industry will continue to remain the key driver for flavour industry due to the widespread use of flavours in processed food, snacks, soft drinks, candy & confectioneries, meat and seafood products, sauces, condiments, etc. Expansion of fortified food and beverages will provide opportunities since flavours are required to cover up the off-tastes of vitamins, minerals, antioxidants and other added ingredients. Furthermore, efforts to reduce calories, salt and fat in foods will increase demand for flavours to improve the taste of those products. There has been rising interest in natural, organic food and beverages which is leading to increased demand of essential oils and natural extracts used in these product categories.

Source: Company

Way forward

- 1) The Company remains committed to its target of becoming US\$ 1 billion business globally by the end of the decade. The Company is committed to comply with highest quality standards and comply with all requisite regulatory compliances to deliver best-in-class products both in domestic and international markets. The fact that it is an established player gives it good headroom for growth in the market. The Company's geographically diversified market presence gives it quick access to a large number of untapped customers, especially in the overseas market. The Company is looking to grow through the inorganic route - acquisitions. The Management has a clear strategy to acquire and put strategic bolt-on companies which can help the group to grow faster. Through its acquisition strategy, the Company is looking to add geography or customer base of growing customers which it expects that in the future will continue to grow at a double-digit CAGR.
- 2) In the coming quarters, the Company is looking at further augmenting its digital and technology edge to make the most of the emerging future trends in Artificial Intelligence (AI) and White Biotechnology, both of which are fast gaining momentum as new-age tools for ground-breaking developments in the fragrance and flavours industry.
- 3) In reply to an analyst query on post pandemic era for SHK, the Company's Whole Time Director and Group CEO Kedar Vaze said " The pandemic era, as you call it, post pandemic, there are clearly consumer behaviour changes. There are new types of brands, the e-commerce brands and some of the niche brands. They are at either very bulk sale volume packs with value-for-money proposition or a pamper yourself proposition with very good fragrances and very high premium product. This trend is coming in globally, a thick part of it is also in India where people are willing to spend that extra money on e-commerce or luxury products. This is the trend. The pandemic has only, I would say, hastened the trend so there is nothing which is completely new. We were tracking these trends and behaviour and in consumer expectations and the pandemic has only made it faster which is beneficial for us in terms of the overall growth. We are more and more focused on the regional and local brands and specifically looking at niche opportunities. We benefit from this in the long-term growth. In the short term, actually, even prior to the pandemic at the time of the GST, demonetization, we have already seen some of the smaller clients de-grow. So, there is no additional effect on that with the pandemic but yes, the smaller clients which have their products being sold through the normal bazars in the local trade, they have seen less footfall, less people and less normal business. Their business has been lower but that is a clean effect which is already factored in our base for last year or for this year. So, I think we will continue to grow and in the pandemic, if anything has accelerated, it is the growth towards our clients, our potential clients. It is especially very important in terms of the European company that we have taken in Italy. We see that huge amount of traction on the regional brands and Italian local brands and niche high-end products which is helping us continue to grow even during the pandemic."



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One year price movement chart



Source:Tradingview

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Buy – Absolute return of 20% and above

Accumulate – Absolute return between 15% and above

Book profits - On achieving the price target given in the research report for a particular Company or on a occurrence of a specific event leading to change in fundamentals of the Company recommended

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