



Mumbai-based SH Kelkar & Company is the country's largest domestic producer of fragrance, with 20.5% market share with exports to 52 countries. This segment forms the bulk of its revenues while its other business of flavours contributes about 5% of revenues. The estimated size of the Indian fragrance industry and Indian flavour industry is Rs. 1,880 crore and Rs. 1550 crore, respectively, in CY13. The company is an emerging player in the flavour segment (2% market share in CY13) in India with exports to 15 countries. The company has four manufacturing facilities at Raigad and Mumbai in Maharashtra, Vapi in Gujarat and Barneveld in the Netherlands with a total installed manufacturing capacity of 19819 tonnes annually. SH Kelkar produced 7170 tonnes of fragrance and 434 tonnes of flavour in FY15. Company's fragrance manufacturing plants in Mumbai and Raigad comply with the regulations of the International Fragrance Association ("IFRA") and the flavour manufacturing plant in Raigad in Maharashtra is registered with the United States Food and Drug Administration ("US FDA"). The company has a strong and dedicated research team of 18 Scientists. During the financial year 2015, the company has developed over 502 new fragrance and flavours compounds which they sold commercially. The fragrance and flavour ingredients are used in a host of products such as soaps, shower gels, detergents, shampoos, hair oils, deos, perfumes, air care, floor cleaners, biscuits, ice creams, cakes, beverages, syrups, amongst others. Given that S H Kelkar supplies these to over 4,000 companies including Godrej Consumer, Wipro Consumer, Marico, Vini Cosmetics, HUL, Britannia, Vicco Laboratories, Vadilal Industries, amongst others, it only shows the company's standing in the business. SHKL has a well diversified revenue model — no single product or client contributes over 5% to its revenues. This is a key positive as makes it less vulnerable to client/product specific setbacks. Strong research and development skills (developed 12 molecules in the past three years) enable the company to offer innovative products to its clients. Going forward as well, the company plans to focus on innovation and enhance its product offerings. It aims to increase market share by adopting steps such as expanding its client base to include multinational companies, invest more to grow in emerging markets such in Asia and Middle East and North Africa, amongst others. Inorganic growth forms an important part of SH Kelkar's strategy to achieve geographic expansion, strengthen technology, broaden product offerings, amongst others. The company has about 12% share in the overall Rs 4,000 crore fragrance and flavours market in India. The Company has witnessed excellent performance over the past years. SHKL reported revenue and net profit compounded annual growth of 16% and 22%, respectively over FY11-15. In FY15 though, the effects of overall slowdown was visible with topline growth slowing to just 10%. The topline as well as profits were also impacted by raw material availability and pricing issues, which led to a decline in margins. However, the Q1FY16 performance is pointing to some pick up in topline and rebound in margins. In addition, with the debt repayment from the proceeds of IPO, the company would be able to save Rs. 18 crore of interest cost immediately.

At the upper end of the price band of Rs 180, the issue is valued at a P/E of 28x on post issue FY16E EPS assuming interest cost savings which is at a premium as compared to 20-26 times CY15 price/earnings ratio of global peers such as Givadaun, IFF and Symrise. With due consideration to factors like a) largest domestic producer of fragrance, b) market leadership position, c) significant share in domestic market, d) major beneficiary of increasing demand from FMCG companies specifically present in personal care, packaged foods & dairy products, we recommend "SUBSCRIBE" to the issue.

Issue date	Oct. 28 - 30, 2015			
Issue size	Rs. 508.17 cr. upper end of the price band			
Type of issue	Fresh issue of 1.16 cr shares and Offer for sale of 1.66 cr. shares by Blackstone and Promoter – Ms. Prabha Ramesh Vaze			
Face Value	Rs.10			
Price Band	Rs. 173 - 180 per share			
Lot size	80 equity Shares and in multiples of 80 equity shares thereof			
Issue structure	QIB: 50%, Retail: 35% Non – Institutional: 15%			
Post issue market cap	Rs. 2,612 cr at upper price band			
Book Running Lead Managers	JM Financial, Kotak Mahindra Capital			
Registrar to the issue	Link Intime India Pvt. Ltd.			
Y/e 31 Mar (Rs. cr)	Q1FY16	FY15	FY14	FY13
Revenue (Gross)	238	885	809	710
Growth (%)	-	9.36	14.02	-
EBITDA	40	143	145	120
EBITDA Margin (%)	16.92	16.11	17.8	16.8
Reported PAT	21	64	79	62
PAT margin (%)	8.67	7.27	9.77	8.67
Post issue EPS (Rs.)	5.79**	4.4	5.4	4.27
P/E (x)	31	40	33	42
Equity Capital	141.5	141.5	14.1	12.03
Networth	-	510.3	481	367
RoE (%)	-	13.5	18.3	16.2
Book Value (Rs.)	-	36.13	32.78	31
P/BV (x)	-	4.9	5.5	5.8

** Q1FY16 Annualized EPS

Shareholding Pattern (%)	Pre Issue	Post Issue
Promoters group	64.2	56.7
Non institutional	35.8	43.3
Total	100	100



STOCK BROKING, INVESTMENT BANKING, CORPORATE ADVISORY & INSURANCE

Peer Comparison

Particulars	FY11-15 Sales CAGR	EBITDA Margin	P/E	EV/Sales	EV/EBIDTA
SH Kelkar	16.2 (%)	16.1%	40x	3.3x	19.2
Givaudan SA	3.0 (%)	23.9%	29x	3.9x	16.4
Symrise	7.6 (%)	20.6%	34x	3.6x	17.7
IFF	2.6 (%)	22.1%	20x	2.8x	12.7

Source: Company, Ajcon Research

Objects of the issue

The proposed IPO to raise Rs 508 crore includes a fresh issue of shares worth Rs 208.8 crore which will flow into the company, while the rest is an offer for sale by private equity firm Blackstone and the promoters. Large part of the money coming into the company (Rs 158 crore) will be deployed to retire debt of the company and its subsidiaries. SH Kelkar currently has consolidated net debt of Rs 180 crore. The repayment will boost the company's earnings as it will save about Rs 18 crore towards interest costs annually.

Disclaimer

Ajcon Global Services Ltd. is a fully integrated investment banking, merchant banking, corporate advisory, stock broking, commodity and currency broking. Ajcon Global Services Ltd. research analysts responsible for the preparation of the research report may interact with trading desk personnel, sales personnel and other parties for gathering, applying and interpreting information.

Ajcon Global Services Ltd. is registered as Research Analyst with SEBI bearing registration Number INH000001170 as per SEBI (Research Analysts) Regulations, 2014.

Individuals employed as research analyst by Ajcon Global Services Ltd. or their associates are not allowed to deal or trade in securities that the research analyst recommends within thirty days before and five days after the publication of a research report.

We and our affiliates, officers, directors, employees and their relative may: (a) from time to time, have long or short positions in act as a principal in, and buy or sell the securities or derivatives thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage.

The information and opinions in this report have been prepared by Ajcon Global Services Ltd. and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of Ajcon Global Services Ltd. While we would endeavour to update the information herein on a reasonable basis, Ajcon Global Services Ltd. is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent Ajcon Global Services Ltd. from doing so. This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. Ajcon Global Services Ltd. will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Ajcon Global Services Ltd. accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Ajcon Global Services Ltd. or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

Research Analyst

Akash Jain, MBA (Financial Markets)

Corporate Off. : 408, Express Zone, "A" Wing, Cello – Sonal Realty, Near Oberoi Mall, Western Express Highway, Malad (East), Mumbai - 400 063. Tel : 91-22-67160400
mail : research@ajcon.net Website : www.ajcononline.com



STOCK BROKING, INVESTMENT BANKING, CORPORATE ADVISORY & INSURANCE

Ajcon Global Services Ltd. or its associates have not received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

Ajcon Global Services Ltd. encourages independence in research report preparation and strives to minimize conflict in preparation of research report. Ajcon Global Services Ltd. or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither Ajcon Global Services Ltd. nor Research Analysts have any material conflict of interest at the time of publication of this report.

It is confirmed that Akash Jain – MBA (Financial Markets), research analyst of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

Ajcon Global Services Ltd. or its subsidiaries collectively or Directors including their relatives, Research Analysts, do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

It is confirmed that Akash Jain – MBA (Financial Markets) research analyst do not serve as an officer, director or employee of the companies mentioned in the report.

Ajcon Global Services Ltd. may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor Ajcon Global Services Ltd. have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on Ajcon Global Services Ltd. by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Ajcon Global Services Ltd. and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.



For research related queries contact:

Mr. Akash Jain – Vice President (Research) at research@ajcon.net, 022-67160431 (D)

CIN: L74140MH1986PLC041941

SEBI registration Number: INH000001170 as per SEBI (Research Analysts) Regulations, 2014.

Website: www.ajcononline.com

Corporate and Broking Division

408 - (4th Floor), Express Zone, "A" Wing, Cello – Sonal Realty, Near Oberoi Mall and Patel's, Western Express Highway, Goregaon (East), Mumbai – 400063. Tel: 91-22-67160400, Fax: 022-28722062

Registered Office:

101, Samarth, Off. Hinduja Hospital, 151 Lt. P.N. Kotnis Road, Mahim (West), Mumbai – 400016. Tel: 022-24460335/36/40

Research Analyst

Akash Jain, MBA (Financial Markets)

Corporate Off. : 408, Express Zone, "A" Wing, Cello – Sonal Realty, Near Oberoi Mall, Western Express Highway, Malad (East), Mumbai - 400 063. Tel : 91-22-67160400
mail : research@ajcon.net Website : www.ajcononline.com