

RECOMMENDATION SNAPSHOT				
*CMP	MCap (Rsbn)	Recommendation	Target	Potential Upside
Rs219	30.3	Hold	Rs265	21%

*as on 14th Aug, 2025

About the Company:

The S H Kelkar and Company Limited (SHK) is a Fragrance and Flavour (F&F) manufacturer in India and has established a long standing reputation of more than nine decades of operations. Over the years, SHK has developed a vast product portfolio of F&F products for the FMCG, Personal care, Pharmaceutical and Food and Beverages industry. The company offers its products under the brand names SHK, Keva and Cobra. Keva caters to a diverse and large client base including a number of leading national and multinational FMCG companies, blenders of fragrances and flavours and producers. The research team has developed 17 molecules over the last 5 years and filed 20 patent applications related to molecules, systems and processes where 6 of these have already been commercially exploited in deodorant and fine fragrance.

Results: Quick Glance:

- The net sales stood at Rs5806mn as compared to Rs4703mn in the same quarter last year, growth of 23.5%
- The Ebitda margins stood at 12.6% as compared to 16.6% in the same quarter last year
- The net profit came in at Rs256mn as against a loss of Rs858mn in the comparative quarter
- On segmental front, core fragrance and flavours reported a growth of 19.4% and 65.2% respectively on a y-o-y basis
- The EPS for the quarter stood at Rs1.85

Conference Call Highlights:

- The **fragrance** division (excluding the global ingredients business) registered a growth of 11.3% on a y-o-y basis. The EBIT for the fragrance division came in at Rs380mn for the quarter (with EBIT margins at 7.7%); excludes incremental spent of Rs34mn for the current quarter and Rs50mn for Q1FY25 & Q4FY25 respectively on account of fire
- The **flavours** segment reported a growth of 65.2% on a y-o-y basis in Q1FY26; the revenue growth was driven by healthy demand in both domestic and international markets. The geographic breakup for fragrance segment on a y-o-y basis in Q1FY26 stood as: India (up by 15.7%), Europe (up by 3.4%) and RoW (up by 8.0%) while for the flavours segment, the geographic growth stood as: India (up by 86.2%), RoW (up by 46.3%). The flavours business segment reported an EBIT of Rs130mn (with EBIT margins at 19.1%)
- The core business in **Europe** witnessed a subdued performance during the quarter under review; this was mainly on account of demand softness and capacity led constraints. This led to a drop in the overall sales by ~5.9% on a y-o-y basis. The gross margins stood at 54.5% in Q1FY26 as against 57.0% in Q1FY25 while the Ebitda margins stood at 17.8%. Though the profitability was impacted led by negative operating leverage, the Management anticipates the performance to improve with gradual recovery in market conditions in the upcoming quarters
- The **global ingredients** business reported a drop of ~15.0% on a y-o-y basis on the topline for the quarter under reference with sales at Rs150mn; demand softness in few key markets alongwith uncertain geo-political situation impacted the overall performance. The Management however, anticipates that these short term headwinds to stabilise and the long-term prospects for this business continues to remain strong (attributed to increased demand from the EU customers in the upcoming quarters)
- For the **Vashivali** plant (Raigad), SHK has received an interim payment worth Rs950mn in Q1FY26 (related to fire incident inventory claim; the approval for the same was received in Q4FY25). The balance covering inventory, reinstatement of the facility, and loss of profit components, is under process. The company expects to receive the pending payments over the next 2 years, with a substantial portion anticipated within the next 12 months
- During the quarter, (i) the Board has approved the proposal for sale of entire 100% equity stake of Keva UK Ltd (WoS of Keva Europe BV) to Keva Fragrances Pvt. Ltd in one or more tranches, (ii) approved the sale of entire 100% equity stake of Keva USA Inc., (a WoS of the company) to Keva Fragrances Pvt. Ltd in one or more tranches, (iii) approved the incorporation of Keva Middle East FZE (a WoS of Keva Fragrances Pvt. Ltd)
- The overall cash and investments as of Jun'25 stood at Rs870mn, while the net debt stood at Rs6410mn- a reduction of ~Rs170mn as compared to Mar'25 levels. The Management expects the debt in FY26E to decline, falling below Mar'24 levels and further moderate from FY27E onwards, (iii) the company will incur a capex of approx. Rs2000mn (funded via debt and internal accruals) over the next 2-3 years. The capex will be directed towards (a) the greenfield facility at Vanvate which has been expedited alongside the rebuilding of the Vashivali plant (following the fire incident), (b) for Europe, a brownfield capacity expansion is in progress at Holland Aromatics in order to address the existing capacity constraints

Financials:

Performance (Q1FY26)							
Q1FY26 Result (Rs mn)	Jun-25	Jun-24	y-o-y	Mar-25	q-o-q	FY25	FY26E
Total Revenue	5806	4703	23.5%	5674	2.3%	21234	23349
EBITDA	730	783	(6.7%)	734	(0.6%)	2970	3152
Other Income	8	7	24.6%	17	(51.2%)	239	91
Interest	131	99	32.2%	129	1.4%	494	517
Depreciation	264	225	17.3%	247	6.8%	947	1043
Exceptional Items	21	(1199)	-	593	-	(606)	(50)
Tax	111	124	(10.9%)	(55)	-	407	421
Net Profit	256	(858)	-	1025	(75.1%)	741	1198

Outlook and Recommendations:

The company has reported stable revenues for the quarter under reference. On account of a base impact due to the fire incident in Q1FY25; the overall growth on the topline was ~15% when compared to H1FY25 average. The fragrance business reported a growth of ~11.3% (when compared with H1FY25 average) while the flavours business segment grew by ~65.2% on a y-o-y basis. Even though there were demand related concerns on the industry front, the company's growth was assisted by strong engagements across its mid and small-sized client base which led to a higher wallet share. The gross margins have witnessed an improvement on a sequential basis and stood at ~42.6% in Q1FY26 which is slowly inching towards the Management guidance of ~43-45%. The improvement is also supported by selective pricing actions and an optimised product mix with further benefits expected in the upcoming quarters. As far as the Ebitda margins is concerned, the same came in at ~12.6%; however, after adjusting the incremental spend of Rs34mn related to fire incident and the costs associated with the CDCs; the adjusted Ebitda margins came in at ~16%; the Management anticipates the margins to further improve in H2FY26 and thereafter even in FY27E. The global ingredients business de-grew by ~15% on the overall sales on account of moderate demand in key markets. The recent developments for the CDCs in Germany and the UK are expected to be the key growth drivers for the company from a long-term perspective (once these centres ramp-up). Although the current quarter reported a subdued performance for the Europe core business; the Management expects a gradual recovery in this market led by strong customer engagements and the ongoing brownfield expansion for the Europe facility; which is expected to be on stream by end of this year. The Management has indicated that the tariff related uncertainties won't have any impact to its overall performance as the business in which the company operates is exempt from any imposition of tariffs. SHK is witnessing a steady progress on the ongoing projects and a healthy traction with its global MNC accounts; additionally, the company is trying to leverage the existing relationships and further enhance its presence with other leading MNC accounts. Apart from the planned capex pertaining to greenfield facility at Vanvate, rebuilding of the Vashivali plant and the brownfield capacity expansion at Europe; the company doesn't anticipate to incur any significant growth related capex. On an overall basis traction with the existing clients, gradual scale up of the CDC centres, normalization seen in the working capital and collection cycle, steady progress on the MNC account related projects are few of the fundamentals for the company from a medium to long term perspective. We continue to maintain a Hold on the stock for a target of Rs265.

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