



About

SH Kelkar & Co. Ltd

SH Kelkar operates in the fragrances & flavors segments under its flagship brand 'Keva'. The group commenced operations as a manufacturer of industrial perfumes in the year 1922. Many generations of the promoter family have steered the company on growth path. The co. derives 90% of revenues from the fragrances business, and the remaining from the flavors business. The fragrances business mainly caters to the personal care segments such as soaps, detergents; whereas the flavors business mainly caters to food and beverage manufacturers. The management is focused on increasing its export business along with domestic business. The company has been on an expansion spree by way of acquisitions. The company is a market leader having close to 23% market share in the fragrances business.



- The company has a total of 15 subsidiaries/ associate companies/ joint ventures.
- The company has a history of making acquisitions: They have made a total of 9 acquisition since 2011. All these acquisitions were made to expand the core business. However, this may not be the best way to expand. The present goodwill on balance sheet is Rs. 40 crores.
- The co. recognized an exceptional loss of Rs.36 crores in FY 2020 on account of impairment of plant and machinery in Netherlands. The Netherlands business has reported a 5 year cumulative loss of Rs. 20 crores. The plant has been shut and assets are up for sale. Such events raise doubts in the efficacy of an aggressive acquisition strategy for achieving high growth.
- We like the fact that the management has started getting on their toes as far as growth is concerned. However, it needs to be seen how sustainable this growth can be in a stable growth industry like F&F. It's a wait-and-watch situation.



- The company's products form a relatively small proportion of costs for the end products, but the value derived is huge (*Would you like to use a handwash or detergent without fragrance?*)
- There is customer stickiness in the business, as clients cannot risk by experimenting with new fragrances. (*Imagine a different fragrance every time in your preferred handwash!*)
- Understanding evolution of long-term consumer trends is very important in this business. This gives SHK an edge as it has over 9 decades of cumulative learning in the field.
- Nature of demand is fairly stable as clients are mainly from fast moving sectors.
- SHK has stayed its course in this niche industry, and avoided any unrelated diversification.
- It took SHK 9 decades to reach a mark of Rs. 1000 crores. Mr. Kedar Vaze(Promoter) has indicated that they aspire to grow by 6 times in the current decade. However, this needs to be carefully analysed considering the recent not very successful acquisitions.

Points not covered



The co. has generated cumulative 5-year cashflow from operations of Rs. 574.48 crores. Out of this, the company has invested Rs. 202 crores in acquisitions/ equity infusion in existing subsidiaries. Rs. 215 crores was spent in capital investments in existing business. Deeper analysis is required on how well these investments are faring.

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