S H Kelkar and Company Limited
Annual Report **2019-20**

Resilient Present
Resurgent Future

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Message from the Whole-time Director & Group CEO

Dear Shareholders,

I present our Annual Report for FY 2019-20 with the promise that the resilience we have displayed in this challenging present will take us towards a future that is resurgent and filled with opportunities.

"With processing and packaging of FMCG becoming more advanced and companies competing to enhance their product appeal, we remain at the centre of the dynamic fragrances and flavours industry, building on our strong brand proposition, global reach, and established presence in all the key segments."

As we speak, there has been turbulence behind us and there may be some turmoil ahead of us, too. But what we deliver to the world are fragrances and flavours, which appeal to human senses even more than sight and sound. We create unique olfactory experiences that drive sales for a range of fast-moving consumer goods (FMCG). Local at heart and global in mindset, our extremely agile way of working places us in a unique position to partner with major multi-nationals as well as domestic companies. Our rich legacy and global growth are equally important to us and we have dedicated sales and creative teams to optimally service both the segments.

As long as the consumer economy exists and grows, new and unique business opportunities would continue opening up for us. With processing and packaging of FMCG becoming more advanced and companies competing to enhance their product appeal, we remain at the centre of the dynamic fragrances and flavours industry, building on our strong brand proposition, global reach, and established presence in all the key segments. Going forward, we shall keep the 3I (India, Italy, Indonesia) - 3C (categories) strategy at the centre of our operations.

During the year under review, we were set for a double-digit growth, but for the sudden impact of COVID-19 and the lockdown across India and many other countries. Our very strong order book for March 2020 alone could have propelled us to a 12% year-on-year growth. We also achieved cost efficiencies after moving some operations from Europe to India and by giving each division within Keva more autonomy.

Our measures to tighten the bottom line and increase operational efficiency include the following:

- Across the Keva business divisions, we set up strategic business units, with each SBU given full control over its own costs, revenues, and resource allocation for research & development. Besides making the divisions self-sufficient and more driven to produce results independently, this move also makes our Company more agile and better prepared to respond to every business opportunity, present and future. The increased autonomy lets every SBU take its decision-making still closer to the market. Our fabric care studio in Singapore is a global centre of excellence, one that will take our 3I-3C strategy forward. The studio proves our commitment to investing in research to create market-leading products.
- Assessing the market scenario and growth pockets, we focussed on the consolidation of our advantages and the streamlining of each vertical, rather than on new initiatives, a move that we consider prudent.
- The seamless relocation of our operations from Barneveld, in the Netherlands, to Mahad, in Maharashtra (India), was concluded and led to a significant lowering of expenses.
- Our Mahad facility began operating at full capacity by December 2019, within one year of commencing operations, which is exceptional for bulk chemical manufacturing, and it continued to do so up to February 2020, right until the point when COVID-19 really made its impact.
- Our facilities were back at 70% to 100% production capacity by the end of April 2020.
- We revamped our Mumbai headquarters and built a state-of-the-art laboratory for flavours. This will enhance our image and credibility in a space where the entry barriers are high and new entrants have to make a huge effort to grow. There are great opportunities here and we have already won noteworthy business from major names in the packaged food and beverages industry.
- We had our first sampling of an Ayurvedic product for a major MNC client, which was a breakthrough for us. There is huge scope in the natural ingredients and immunity-boosters business after this contagion and we are exploring several opportunities here.
- While growth in fine fragrances became muted following the pandemic and its economic impact, we are confident of offsetting this by catering to the increasing demand for hygiene products, including soaps, hand wash, sanitisers, and household cleaning products. Our R&D pipeline was ready with ingredients and fragrances for soaps and sanitisers, which enabled us to quickly partner with several sanitiser manufacturers to tap into the climbing demand.
- Key emerging markets in the SAMEA region (South Asia, Middle East, Africa) continued to give us significant business in 2019, even as the domestic market in India saw a slowdown.
- Our fragrance division went beyond FMCG products and made inroads into industrial applications.

The lockdown imposed nationally towards the end of FY 2019-20 prevented us from executing ourorders, causing an estimated ₹ 30 Cr loss in the last 10 days of March 2020. Our growth was undoubtedly interrupted by the pandemic but we are moving towards the next phase by identifying new avenues of growth.

FINANCIAL PERFORMANCE

Though impacted by the COVID-19 disruption, the year ended on 31 March 2020, gave us a Total Income of ₹ 1,122.06 Cr, up by 4.72% from ₹ 1,071.48 Cr for the year ended on 31 March 2019. However, Total Expenses also increased during the corresponding period, from ₹ 956.63 Cr to ₹ 1,032.28 Cr. The impairment of plants and machineries and manufacturing facilities in the Netherlands, along with other closure costs in respect of the Netherlands facility, resulted in a one-time exceptional expense of ₹ 36.5 Cr. Profit after Tax, after the abovementioned exceptional item and including the share of profit (net of depreciation on assets comprised in the purchase price paid) in Creative Flavours & Fragrances SpA, Italy, and other joint ventures was ₹ 35.9 Cr as against ₹ 88.3 Cr during the previous year.

Despite the dividend payment of ₹ 13.4 Cr and the raw material crisis during the year under review, our net debt position is maintained at ₹ 299 Cr in line with the previous year ₹ 299 Cr.

We believe that our recent cost rationalisation efforts will bring down expenses and help us control the bottom line, while we continue with our efforts to penetrate new territories and new areas of fragrances and flavours.

Message from the Whole-time Director & Group CEO

With 50+ years in the service of Keva, Mr. Ramesh Vaze has given us an unparalleled repository of knowledge and values that will guide us in the years to come, helping us grow both, at home and overseas.

PASSING ON THE BATON

A major internal change in the Company was the transition of our Managing Director Mr. Ramesh Vaze to the position of Non-Executive Chairman of the Board in September 2019. Consequently, I have taken on additional responsibilities in my capacity as the CEO. With 50+ years in the service of Keva, Mr. Ramesh Vaze has given us an unparalleled repository of knowledge and values that will guide us in the years to come, helping us grow both at home and overseas.

This is a turning point for Keva, as consumer preferences and buying habits are seeing a shift in the 'new normal' brought about by COVID-19. Our Company now has a team that is more attuned to the transformed global scenario. With an eye on growing our exports business, we have brought about changes in the management, revising the allocation of responsibilities and creating new ones.

COVID-19 RESPONSE

During the contagion, we did everything possible to maintain employees' health and safety while trying to restart operations as soon as permitted by the government.

Aside from the mandatory health checks and sanitisation at our offices and facilities that still required the physical presence of employees, we also implemented work from home. Life insurance cover was provided to all the employees, in addition to the group health insurance cover that they already have.

As for our CSR (Corporate Social Responsibility) activities, we modified those to alleviate the suffering of the disadvantaged during the COVID-19 pandemic, when many daily wagers had no income. Partnering with Roti Foundation, Mumbai, our Company was engaged in providing meals to the underprivileged and daily wage workers. The support provided by S H Kelkar and Company Limited was utilised to feed 75,000 daily wagers and migrants.

As our plants began to reopen, we put in place every precaution necessary. We do not know yet what shape the pandemic will take – whether there will be a second wave or not – but we have learnt much during this time and our keen focus on safety will keep our employees out of harm's way.

GROWTH OUTLOOK

The future of the fragrances and flavours industry is secure, as it caters to end-user industries that will remain an indispensable part of global consumers' lives. In India, the pandemic may have hit jobs and spending power in the short to medium-term, but in the long-term, the country will get back on the growth track.

Growth in the economy, with its resultant preference for trustworthy brands and fine fragrances and natural flavours, is highly beneficial for our Company. If MNCs shift their sourcing of FMCG chemicals from China to India following the pandemic, then we are at the forefront of seizing that opportunity. The European fragrance operations now coming fully under our control has put us in a better position to nimbly strategise and redraw the route map if the market so requires. We also have the unique advantage of being in the birthplace of Ayurveda, in a country that has introduced the world to the healing power of naturals. We have already begun receiving many client briefs in the health and hygiene space and we expect rapid development in this area.

Europe is at the centre of the global fragrance industry, setting trends for the world. Acquisition of 51% stake of Creative Flavours & Fragrances SpA (CFF), leading Italian company headquartered in the fashion capital of Milan, has opened up enormous growth opportunities in the fine fragrances and fabric care segments for Keva. CFF has given us access in the premium product markets of Europe, while also giving us a head-start in the emerging markets of Asia. We are confident of benefiting greatly from the access to CFF's creative development centres and expertise.

Based on traditional knowledge and cutting-edge research in state-of-the-art labs, Keva's products are fit to compete with the best in the international market.

CONCLUSION

A new chapter in the Keva story opens in this new normal. You have been there with us through it all and we cannot emphasise enough how much your support means to us. I take this opportunity to thank each of our stakeholder groups – employees, management, business channel partners, and shareholders – for being there for Keva. A special thanks to employees, who have enabled us, during the peak of the COVID-19 crisis, to maintain the essential services that are part of Keva's overall operations, helping us to contribute to a stronger India.

Kedar Vaze
Whole-time Director & Group CEO

Management Discussion & Analysis

GLOBAL ECONOMIC OVERVIEW

World economic output in 2019 dipped to 2.9% from 3.6% seen in 2018 led by trade policy uncertainty, geopolitical tensions, idiosyncratic stress in key emerging market economies, intensifying social unrest in several countries and weather-related disasters. Towards the end of 2019, temporary factors that had slowed global manufacturing like auto sector adjustments to new emission standards, a lull in the launch of new tech products, and inventory accumulation, appeared to fade and business sentiment ceased to deteriorate further.

Growth across emerging market economies was weak largely due to subdued domestic demand. The advanced economies also witnessed slow growth mostly reflecting softer growth in the US. Despite continued job creation, core consumer price inflation remained muted across advanced economies while softened across most emerging market economies amid more subdued activity. Weak demand lowered metals and energy prices.

(%)

	2018	2019	2020P	2021P
World output	3.6	2.9	(4.9)	5.4
Advanced economies	2.2	1.7	(8.0)	4.8
US	2.9	2.3	(8.0)	4.5
Euro Area	1.9	1.3	(10.2)	6.0
Japan	0.3	0.7	(5.8)	2.4
UK	1.3	1.4	(10.2)	6.3
Other advanced economies*	2.7	1.7	(4.8)	4.2
Emerging Markets and Developing Economies	4.5	3.7	(3.0)	5.9
China	6.7	6.1	(1.0)	8.2
India	6.1	4.2	(4.5)	6.0

*Excludes the G7 (Canada, France, Germany, Italy, Japan, United Kingdom, United States) and euro area countries
P= projections
Source: IMF, World Economic Outlook

Outlook
The global economy is set to experience its worst recession in 2020 with the COVID-19 pandemic likely to shrink global growth significantly led by long periods of lockdowns across nations. As a result, the global economy is expected to contract sharply by 3% in 2020. Many countries face a multi-layered crisis comprising a health shock, domestic economic disruptions, plummeting external demand, capital flow reversals, and a collapse in commodity prices.

Source: IMF, World Economic Outlook - June 2020

INDIAN ECONOMIC OVERVIEW

The green shoots which were seen at the end of 2019 have been overtaken by the negative impact of the COVID-19 pandemic. Disruptions in demand and supply due to lockdown have outweighed the Government initiatives like reduced personal income taxes, increased assistance to the agriculture sector and rural areas to boost consumption, corporate tax cuts and increased public investment in infrastructure to revive investments, re-capitalisation of state-owned banks and financial sector reform to revive credit.

According to provisional estimates by Central Statistics Office (CSO), GDP growth is estimated at 4.2% in FY 2019-20 driven by contraction in investments and exports. Despite the pandemic hovering economic growth, India continues to be the fastest growing emerging economy of the world. In response to the economic pressure due to the ongoing pandemic, the Reserve Bank of India (RBI) cut its lending rate from 4.4% to 4%, extended a six-month debt moratorium to small and medium-sized businesses and remained committed to using all instruments to fight the pandemic. Fiscal deficit widened to 4.6% of GDP in FY 2019-20 mainly on account of shortfall in revenue collection. The Indian government launched a fiscal and monetary stimulus worth ₹ 20,000 Cr to counter the economic fallout from the pandemic.

Outlook
A revival in domestic investment is likely to be delayed given enhanced risk aversion on a global scale, and renewed concerns about financial sector resilience. Coronavirus lockdown of 40 days and then graded lifting means the bottoming out of India economy has been prolonged. Growth is likely at 1.5-2.8% in FY 2020-21, depending on the severity of the spread of COVID-19 pandemic. Growth is expected to rebound to 4-5% in FY 2021-22 as the impact of COVID-19 dissipates, and fiscal and monetary policy support pays off with a lag.

Source: World Bank, CSO provisional estimates

A revival in domestic investment is likely to be delayed given enhanced risk aversion on a global scale and renewed concerns about financial sector resilience.

THE GLOBAL FLAVOURS AND FRAGRANCES INDUSTRY

The global flavours and fragrances (F&F) market size was valued at US$ 29.8 billion in 2019 as compared to US$ 27.2 billion in 2018. Growth in population, rapid urbanisation, uptrend in lifestyle, double earning families and increased need for convenience and personal control provides a big boost to the F&F industry as demand for packaged foods, beverages, home care, personal care, cosmetics, toiletries, pharmaceuticals and nutraceuticals increase. The increasing demand for convenience food products has propelled companies to introduce innovative flavours boosting the Flavours and Fragrances market growth.

There is a rise in demand for flavours from the pharmaceutical industry owing to the fact that flavours overpower the bitter taste of medicines and make it more edible, thus transmitting a beneficial therapeutic effect. Synthetic fragrances are gaining popularity on account of their strong aroma and long-lasting properties.

Beverages, dairy, savoury, snacks and pharmaceutical products are the driving factors for the flavours market. Increasing popularity of dietary supplements and nutraceuticals are giving impetus to the growth. Rising awareness of health and wellness segment is expected to be a big growth driver in future.

With growing popularity of organic and natural segment, the natural flavour and fragrance segment has become the main focus of all industry players. Natural flavours and fragrances are safer, healthier and have therapeutic value attached. Similarly on the technology front, encapsulation of fragrances, which enhances shelf life and improves heat stability, is gaining significant ground.

UK and US continue to dominate the global flavours and fragrances industry. Europe holds a significant position in the F&F market on account of the increasing demand for encapsulated flavours and fragrances in liquor-based drinks as well as in cosmetic products. The North American market has reached the maturity phase. Asia Pacific is likely to emerge as the most lucrative market owing to the rise in demand from both the food and cosmetic industries. India and China lead the consumption amongst APAC nations led by sheer high population and rapid urbanisation.

FRAGRANCES – GROWTH DRIVERS

- **Changing lifestyles:** With increasing disposable income, more local consumers are opting to use quality products, especially young consumers. In the wake of the global pandemic, higher focus on hygiene products has pushed demand for new and innovative fragrances used in hand wash, sanitizers, floor cleaners etc.
- **Emerging markets:** Disposable income of people is increasing in the emerging markets, surging their purchasing power, which in turn is leading to increased spending on beauty and personal care products. This is leading to increasing demand for various scents and fragrances.
- **Rise in use of personal care products:** Personal care is a prominent application segment owing to increasing demand for perfumes, deodorants, soap, talcum powder, cream, and hair oil. Also, rising demand for car and room fresheners and growing popularity of aromatherapy is expected to further fuel the growth. Hospitality segment is also witnessing increasing demand for fragrances to create a pleasant environment.
- **Naturals gaining popularity:** One of the drivers of the global natural fragrance market is the increasing number of health issues caused by products containing synthetic fragrances. Natural fragrances which are safer and healthier are emerging as the preferred choice.
- **Industrial segment:** Fragrances are witnessing increasingly growing acceptance for industrial use like ambience-fragrances for the consumer durables and automobile accessories, which hitherto was an unexplored category.

FLAVOURS – GROWTH DRIVERS

- **Food flavours demand on a rise:** Increase in demand for processed food and beverages with growth in disposable incomes, rise in the demand for unique flavours in various food applications and surge in popularity of exotic flavours is one of the most important drives of growth for the Flavours industry.
- **Naturals gaining popularity:** Rise in concern among consumers about the long-term health effects of artificial ingredients and additives has increased the demand for natural and healthy flavours in food products.
- **Technological advancement:** Technological advancements not only help to develop innovative flavours to cater to the change in customer taste requirements, but also increase their stability and suitability. Manufacturers are inventing and adopting advanced technologies such as solid-liquid extraction (SLE), supercritical carbon dioxide extraction, supercritical fluid extraction, and others which, in turn, will result in growth in the flavours market.

Outlook

The global F&F market is expected to reach US$ 40.6 billion by 2025, growing at 5.1% CAGR during 2020-2025. Increase in population, coupled with rise in consumer expenditure on personal and beauty care products, growth in awareness about the therapeutic benefits of fragrances and innovative product push strategy by key global players are the major drivers for the global flavours and fragrances (F&F) market. Rising awareness regarding cleanliness and personal hygiene among middle-class income groups in the emerging economies, including India, China, Thailand, Vietnam and Brazil, is expected to expand the scope of fragrances.

Challenges

Availability of counterfeit products and use of chemical ingredients with probable side-effects are expected to hamper the growth. Sustainable sourcing has been a challenge for the industry players. Shrinking margins due to limited pricing power and increased competitive pressure causes difficulties for industry players.

Source: https://www.imarcgroup.com/flavours-fragrances-market

THE INDIAN FLAVOUR AND FRAGRANCE INDUSTRY

Overview

The Indian F&F market is highly fragmented with both purchasers and suppliers ranging from multinational companies and large Indian industrial houses, to small-scale industrial units and local manufacturers. Companies are strategising ways to strengthen their presence and are focussing their sales expansion plans to cater to increasing demand from tier II and tier III cities that are the biggest drivers of growth. Companies are launching a range of affordable grooming products and are exploring newer flavour variants, thereby creating product differentiation to spur consumption. Indian companies have exhibited increased willingness to experiment with the new, more exotic flavours rather than opting for basic ones. With consumers becoming progressively health conscious, tremendous growth opportunity has emerged for health and wellness fruit-based food flavours. The concept of natural and traditional Indian herb extracts is also gaining significance in the fragrance markets.

The F&F industry, valued at approx. ₹ 6,400 Cr, faced some pressure owing to issues related to delayed GST refunds and lesser new launches. The current Indian fragrances market is estimated at ₹ 3,200 Cr and the flavours, at ₹ 3,200 Cr. Keva continues to be the largest Indian origin player with an agile and fast changing approach to meet changing consumer needs.

Keva, along with the top four global F&F giants continues to dominate the Indian market. Growing investments in innovative product developments to meet the demand from home care, pharmaceutical, personal care, automotive, and hospitality industries will help propel growth for these players. Increasing approval of flavours in nutraceuticals, pharmaceuticals and dietary supplements, and gaining popularity of natural fragrances as a healthier, therapeutic and safer option is attracting higher investment in natural flavours and fragrance development. A green premium on the products produced using natural aromas is quite common given the growing awareness concerning health and wellness. Another opportunity is stemming in the encapsulated fragrance category which are longer lasting. Another big boost to flavours is arising from the Mega Food Park Scheme involving creation of 37 mega food parks of which 18 are currently operational.

Outlook

Rampant urbanisation, growth of disposable income, availability of convenience goods coupled with growing health concerns are the major drivers for the industry's growth. Additional factors such as awareness among governments and consumers to address specific health and nutritional needs are strongly fuelling the growth in personal care, home care, cosmetics, package foods, beverages and nutraceuticals markets, which in turn is driving tremendous growth for flavours and fragrance industry.

Outlook for fragrance segment

There has been a sharp increase in the use of fine fragrances led by increased effort of the consumers to smell nice, especially for social meetings. The alleviation of cosmetics from a feminine-centric product, to unisex arcade has expanded the volume of demand for personal care and cosmetic products giving strong impetus to fragrance market growth. The current economic crisis that the world is facing due to COVID-19 pandemic, has resulted in muted growth for the industry, however, the outlook still remains positive due to the evolved consumer tastes and preferences.

Outlook for flavour segment

Edible products manufacturers are constantly innovating and adding a variety of flavours to its existing portfolio to attract existing as well as new customers. The beverages, dairy products and confectionery industry are regularly upgrading their products portfolio in order to stay ahead in the competitive landscape. Food and beverage companies are constantly employing the strategy of products extension by launching different flavours of a particular product targeting specific segment of consumers. Consequently, the demand for processed as well as natural flavours is witnessing a substantial upsurge.

INDIAN FLAVOURS AND FRAGRANCES MARKET – OPPORTUNITIES

Overview

Indian economy despite minor glitches, is robust with strong fundamentals and it will continue to be one of the fastest growing countries in the world. India offers one of the largest markets in the world for products of mass consumption. Rapid urbanisation largely due to agricultural growth, income redistribution and the high proliferation by the audio-visual media has further contributed to the growth of various FMCG categories.

India has extensive sales and distribution network including supermarkets, large stores, smaller neighbourhood retail stores, small shops etc. The banking network with consumer financing is also supporting extensive sales and distribution network.

Cultural diversity, varying climatic conditions, influx of foreign influences over various periods of our country's history is all responsible for complex fragrance and flavour preferences across India. With digital revolution, youth is abreast with latest international preferences and constantly trying to mimic it. All these reasons have contributed significantly in the growth of the Indian F&F industry and will continue to help it multiply in size in the coming future.

In the wake of these challenging times of COVID-19 pandemic, the Company saw rising demand for its products from the personal hygiene segment, especially from the hand sanitizers, liquid hand wash and soap manufacturers. It was able to effectively serve the demand of these customers. At the same time, growth in fine fragrances has been slightly muted.

On a consolidated basis, the Company's total income stood at ₹ 1,122.1 Cr in FY 2019-20 as compared to ₹ 1,071.5 Cr in FY 2018-19, registering 5% growth despite challenging global and domestic environment.

Financial Performance Analysis

On a consolidated basis, the Company's total income stood at ₹ 1,122.1 Cr in FY 2019-20 as compared to ₹ 1,071.5 Cr in FY 2018-19, registering 5% growth despite challenging global and domestic environment. The Company witnessed healthy demand and improved traction in terms of order enquiries and leads, especially from the mid and large-sized FMCG customers.

Fragrance segment, which contributes ~90% to total revenue, clocked a healthy 7.9% growth in domestic business and 4.7% growth in the international business. Flavours segments de-grew by 17.9% in domestic business but posted 17% growth in the international business.

The impairment of plants and machineries in Netherlands resulted in a one-time exceptional expense of ₹ 36.5 Cr, which impacted reported profitability. A substantial part of this expense was a non-cash impairment charge.

EBITDA stood at ₹ 129.5 Cr in FY 2019-20 as compared to ₹ 160 Cr in FY 2018-19. The Company registered a PAT (excluding one-time exceptional cost) of ₹ 71.2 Cr in FY 2019-20 as compared to ₹ 87.8 Cr in FY 2018-19. Cash profit was at ₹ 122.7 Cr in FY 2019-20 as compared to ₹ 119.0 Cr in FY 2018-19.

The Company reduced Net Debt as on 31 March 2020 to ₹ 299 Cr as compared to ₹ 400 Cr as on 30 September 2019 after accomplishing buy-back and interim dividend.

COVID-19 PANDEMIC

While the Company was seeing good traction during the year, the unprecedented COVID-19 pandemic hit domestic business during the last quarter. The Company's steady growth trajectory and investment in growth before the global crisis has enabled it to maintain and secure business operations, while also ensuring safety and well-being of employees and business partners. The Company did not witness any significant impact on orders from customers during the lockdown period.

On the operational front, in compliance with Government advisories/directives issued in regards with COVID-19 pandemic, the Company had temporarily suspended manufacturing operations across its manufacturing facilities in India for ~33 days. However, pursuant to requisite approvals from the concerned Government Authorities, it resumed manufacturing operations at its Vashivali, Mulund, Vapi and Mahad facilities from 27 April 2020 onwards. During the lockdown period, the Company faced a few challenges like availability of labour, extra lead time of couple of days in comparison to demand, delayed import due to clearance and authority restrictions, increased working capital requirements due to increased inventory levels.

Led by robust order book, the Company is on track to steadily improve utilisation levels across facilities. Strong balance sheet and robust liquidity position puts the Company in a good stead in these disorderly times.

The Company is undertaking all required precautions and deploying the highest safety standards as advised by the Government Authorities across all these manufacturing locations. The production is witnessing gradual ramp-up in volumes led by efficient supply-chain management. As lockdown measures across domestic markets are easing, the Company is witnessing a steady build-up in demand momentum. Led by robust order book, the Company is on track to steadily improve utilisation levels across facilities. Strong balance sheet and robust liquidity position puts the Company in a good stead in these disorderly times. Robust risk management strategy to maintain and secure business operations and to mitigate the risks and impact on its employees and business partners is in place. The Company has taken several proactive steps to safeguard the health and well-being of its employees and put in place work-from-home arrangements for all the staff members.

On the international front, the manufacturing facilities at China (Anhui Ruibang) and Italy (Creative Flavours and Fragrances SpA) continue to be fully operational in FY 2020-21. From mid-January 2020 to the 1st week of March 2020, the manufacturing facility in China was shut initially for maintenance and later due to COVID-19 outbreak. The Company was geared to increase production at Mahad facility to meet possible surge in demand. The economic value of the investment in the facility at Netherlands, which was shutdown, has been fully recouped and integrated with operations in the group. The Company is actively exploring options to maximise the monetisation of the plant infrastructure by way of a slump sale or through a new venture in collaboration with potential investors or business partners.

The Company continues to realise cost-optimisation strategies and deploy working capital measures to conserve cash flows and ensure steady profitability. The Company continues on its endeavour to sustainably outperform the industry, led by its leadership position, comprehensive product portfolio, diverse customer base, and repeat business wins in existing and new customers. Though achieving normalcy is difficult to predict the growth prospects of the Company remain intact as FMCG consumption continues with greater growth outlook in certain categories of home care, personal care and natural ingredients like disinfectants, sanitizers, immunity boosters, fragrance blends and supplements. Keva plans to launch an ayurvedic immunity booster which has recently received a nod from the Ministry of Ayush, Government of India.

Business Segment 1 - FRAGRANCES

Fragrances segment continued to dominate the revenue share of business with ~90% share in FY 2019-20. Fragrances find application across wide spectrum of daily consumption items. The Company's team of specialised perfumers crafts innovative complex compounds and ingredients which are used across a wide range of the fragrance portfolio. The Company continues to leverage its international expertise with Indian capabilities.

Products and applications

With over 9 decades of rich experience, the Company has established stronghold in the Indian markets enjoying preference over multinationals. The Company boasts of venerable customer and vendor relationships, better knowledge of consumer preference, wide range of over 9,000 products, highly professional and motivated team of 19 perfumers, 26 scientists and six state-of-the-art manufacturing facilities in India and abroad. The Company is the leader in most FMCG categories across personal care, home care, fabric care and fragrance and flavour ingredients.

Domestic sales, constituting 67% of total fragrance segment, grew by 7.9% in FY 2019-20

Key Macro Highlights

- The segment clocked 6.8% YoY growth led by dedicated focus on key categories across customers and marked improvement in domestic business. Good traction was seen in fabric care products, microencapsulation products, body sprays, deodorants, fine fragrances and industrial applications of ambience-fragrances.
- Initiated the final closure of fragrance ingredient facility and research activity in the Netherlands during Q3/FY 2019-20 shifting operations to a high quality and operationally efficient centre at Mahad, India.
- Domestic sales operation was divided into three regions viz. North, South and Central & West for better management with dedicated teams to manage the requirements of large corporates and regional clients respectively.
- Ayurvedic products garnered good response in the domestic and international markets. The Company garnered success in making first sample of Ayurvedic medicine for a big MNC in India. The Company also added new and innovative products to its sales portfolio.
- With rising global demand for Tonalid, the replacement facility at Mahad recorded an all-time high production operating at full utilisation levels. In the longer term, it may help to improve the availability of key raw materials given the flexibility of operations.

DOMESTIC SALES

Highlights of FY 2019-20

- Increased traction in FMCG launches (earlier delayed due to changes in GST) put the Company in good stead, especially from mid and large-sized FMCG customer segments.
- Increased momentum in client engagements and buoyant international markets contributed to a healthy performance.
- Despite a challenging raw material scenario, the Company's production was smooth and uninterrupted led by good inventory management practices.
- The segment exhibited consistent strong performance with March 2020 being an exception due to the impact of Government-imposed nationwide lockdown.
- Domestic sales, constituting 67% of total fragrance segment, grew by 7.9% in FY 2019-20.

Outlook

Being local at heart with world-class manufacturing capabilities and strong supply chain remains the key strength of the Company. Despite the unexpected severe impact on world consumption due to COVID-19, the Company stands to benefit by likely quick revival in daily consumption categories. Earnings may see some short-term impact on account of economic lockdown during the beginning of the fiscal. The Company's preparedness is reflected in having adequate inventory of raw material and shift in production line from China to India.

It is expected that some categories like home care and personal care should see high demand, while some high-end discretionary categories like fine fragrances may see weakness. As people become increasingly health and hygiene conscious, the demand in this segment is bound to see an exponential rise. The Company is well-prepared to cater to this rise in demand with increased focus on personal wash, household products, health and hygiene.

The Company is also looking to increase traction in biotechnology in the ingredients portfolio.

EXPORTS

Highlights of FY 2019-20

The Company rolled out a dedicated team, creative support and plan for MENA region and saw good growth traction in various countries like Sri Lanka, Myanmar, Bangladesh etc.

Outlook

The Company is committed to effectively cater to consumer needs with speed, deep understanding of customer needs and rich legacy.

Business Segment 2 - FLAVOURS

The Company is a leading manufacturer of flavours in the country, well known for high-quality and innovative products which are FSSAI approved. Keva has an expert team of 6 flavourists who innovates flavours based on evolving consumer trends. Coupled with state-of-the-art manufacturing facilities, high-end well-equipped laboratory, the Company has emerged as a partner of choice for flavours finding application in sectors like beverages, dairy products, confectioneries, bakery products, savoury, pharmaceuticals, nutraceuticals etc.

With gaining popularity of health and wellness segment, the demand for natural flavours is on an unprecedented rise. The team creates innovative flavours keeping in view the current and emerging trends so as to strengthen ground in the flavours segment. The team continues to make significant progress in the food science space working on creating a wide variety of natural flavours.

Scale with agility

Accredited with US FDA registration and Halal certification, the Company has in place superior quality controls. Novel flavours are formulated and created led by high clarity of purpose and process design.

High level of agility and superior manufacturing processes enables the Company to promptly modify production and ensure high efficiency in logistics with the use of advanced planning techniques, variable capacities and long-standing relationships with reputed logistics companies.

Products and applications

With a wide range of flavours developed based on changing consumer trends and leveraging rich heritage in the flavours space, the Company's products are broadly categorised into natural, nature-identical and artificial. The products are available in dry, mix, liquid and encapsulated forms. The Company's products cater to various segments like shakes and smoothies in the dairy segment, fruit-based and health drinks in beverages, confectionery, bakery and pharmaceuticals.

DOMESTIC SALES

Highlights of FY 2019-20

- Domestic revenue declined 17.9%, mainly impacted in the last quarter owing to COVID-19 pandemic and trading opportunity in the previous year leading to high base
- Continued to upgrade existing equipment base and invest in novel machinery
- Renovated Mumbai office and lab and started a new lab in Gurugram during the year
- Launched granules format and seasoning categories which are seeing good traction
- Focus on enhancing customer awareness continues with increased participation in food expos

Outlook

The Company remains optimistic about future growth prospects. Continued investment in R&D and enhancing production facilities enables the Company to create new flavours in segments of the future like beverages, bakery, confectionery, nutraceuticals and dairy. The Company's food innovation centre in Mulund, Mumbai and in Gurugram holds strong future growth potential.

EXPORTS

Highlights of FY 2019-20

- The international flavours business reported 17% growth as compared to the previous year led by key clients in food segment
- International sales expanded in export markets like Africa, Middle East, Europe and Russia
- Lifestyle business has seen good growth and is expected to grow well going forward
- Auris sales have seen good traction and is available on Amazon and Flipkart platforms

Domestic revenue declined 17.9%, mainly impacted in the last quarter owing to COVID-19 pandemic and trading opportunity in the previous year leading to high base

Outlook

The Company is looking to expand its distribution in the neighbouring countries, especially in the food segments in Africa, Middle East and Russia. The export market which constitutes 60% of business is expected to grow at a faster pace.

Organisation structure

Mr. Ramesh Vaze served the Company as the Managing Director until 31 August 2019 and is currently the Chairman of the Board. He led the Company from the front for five decades, playing an instrumental role in shaping the Company and enabling it to climb the ladder of success. As he stepped down, younger senior leadership team has taken on itself to face challenges.

The organisation ensured internal growth of employees witnessing several internal promotions. The Company also recruited dynamic and experienced business professionals and created a more flexible organisation structure comprising of autonomous business divisions. The Company is confident that the structure would enable in getting teams closer to business with each team being given higher independence in terms of decision making to ensure better business management.

The facilities at Vashivali and Mulund were recently honoured by the National Safety Council for adopting best safety practices and for having completed three consecutive years without any reportable accident

QUALITY MANAGEMENT AND KNOWLEDGE CAPITAL

QUALITY MANAGEMENT

Overview

- USFDA registration and several certifications including FSSAI, ISO 9001:2008, ISO 14001:2015, FSSC 22000, ISO 22000:2005 and ISO/TS 22002-12009 position the Company well
- The ingredients and extraction facility at Vapi has also been certified with ISO 14001 and ISO 45001
- SAP-enabled processes improve work efficiencies
- Modern and technologically advanced plant and machinery including gas chromatographs, density meters, automatic polarimeters, tintometers, flash-point testers, microbiological testing, etc. in its fragrance and flavour testing laboratory provides technological edge
- Strict adherence to rigorous HSE (Health, Safety and Environment) policy enabling a safe work environment from a compliance view-point
- Clean environment policies in place like effluent treatment plants alongside its facilities
- World standard quality control practices are thoroughly followed
- During the year, the facility at Mahad successfully passed the ISO certifications for Environment Management System and the OHSAS (Safety) Management System
- Acquired stringent certifications like HACCP for food safety, Integrated Management System for environment and occupational safety
- The facilities at Vashivali and Mulund were recently honoured by the National Safety Council for adopting best safety practices and for having completed three consecutive years without any reportable accident

Outlook

Stringent quality norms and adherence to newest regulatory compliances enable the Company to deliver best-in-class products. The state-of-the-art research facility in India as an inhouse R&D centre developing innovative molecules has received due acknowledgement from Department of Scientific and Industrial Research (DSIR).

Knowledge capital

- To ensure high-quality talent pool, the Company leverages campus and lateral hiring.
- The Company engages in several management training programmes to groom individuals with high potential to enable them to handle greater corporate responsibilities.
- Keva's LEAD programme helps in grooming existing talent pool.
- 'Ear2Hear' is an Employee Assistance Programme (EAP) extending consultation on personal issues – professionally and confidentially. This is a benefit extended not just to the Keva employees but also to their family members maintaining 100% confidentiality on every interaction.

Highlights of FY 2019-20

As a part of creating a better employee experience, the Company launched 'Pratibimb', a company-wide employee feedback survey giving the management an opportunity to hear and connect with the employees, as the Company is looking to design its next level people-centric and progressive impactful HR policies.

The Company launched Sarathi, a coaching initiative, as a stepping stone towards creating a coaching culture at Keva. It has an internal community of certified coaches, recognised by International Coaching Federation, which is focussed towards grooming and nurturing inhouse talent. Blended with other learning and development initiatives of the organisation, coaching shall equip employees unearth their hidden potential with personal development and action-oriented approach to unleash their full potential.

The Company launched PACT – Promise of Accountability, Commitment and Teamwork, an exclusive program aimed to invest substantially in its key resource – employees, by providing holistic and differentiated engagement plan, conducive work habitat with short-term and medium-term international exposure and learning opportunities to accelerate their career growth.

Keva's plant at Vashivali was presented with the 'Best HR Practice' award by Raigad Chapter of NIPM (National Institute of Personnel Management).

Outlook

The Company endeavours to emerge as one of the admired organisations amongst the Fragrance & Flavour companies in the world. Keeping this objective in mind and the next 5 years' strategic objectives, the Company is continuously building its talent pipeline. There is also a clear focus in terms of building high performance culture to enhance productivity at all levels.

RISK IDENTIFICATION AND MITIGATION

- **Global risk:** The Company's large exposure to various countries across the world makes it susceptible to changes in the macro environments and economies of different countries.

  Mitigation: The Company's dedicated expert team closely monitors the macro-economic development in the various countries in which it operates to keep a check on global risk.

- **Redundancy risk:** The Company needs to constantly innovate flavours and fragrances to keep pace with changing times and changing consumer preferences.

  Mitigation: To ensure long-term businesses sustainability and viability, the Company prioritises innovation led by strong focus on in-house R&D.

- **Supply risk:** The Company uses over 1,500 raw materials and thus inadequate supply of one or more raw materials can disrupt the operations.

  Mitigation: Age-old relationship with suppliers, long-term contracts for raw materials and adequate inventory at all times enables the Company to avoid risk arising due to short supply or unavailability of raw materials.

- **Regulatory risk:** Regulatory compliance is mandatory and lax in adherence may pose significant risk to reputation and long-term business sustainability.

  Mitigation: A stringent online statutory compliance management system, robust internal financial control systems, periodic review of systems by external and internal auditors ensure adherence to all regulatory compliances. The Audit Committee of the Board keeps a close watch on the findings and actions of the auditors thus keeping regulatory risk at bay.

- **Foreign currency risk:** Cross-currency volatility may have a severe bearing on the earnings of the Company as its operations are spread across 50+ countries.

  Mitigation: Forex team which enters into adequate hedging contracts ensures that the Company is not exposed to cross-currency fluctuations.

- **Receivables risk:** Long duration export receivable cycles with higher probability of conversion to bad debts puts the Company at significant risk.

  Mitigation: A stringent and well planned process of selecting trade partners and credit insurance enable the Company to tackle receivables risk.

- **Revenue concentration risk:** Increased dependency on a single client or a few large clients to drive business may put business sustainability at risk.

  Mitigation: The Company boasts of a clientele of over 4,100 small and large companies, without dependency on large clients.

- **Business sustainability risk:** In case the operational responsibility of the Company is concentrated in the hands of a few key personnel, the Company may face sustainability risks.

  Mitigation: The Company emphasises on in-house talent management programme, focused training modules for critical employees, grooming of deserving employee for the next level of business responsibilities and in-house promotions. Dominant posts are held by experts from downstream industries.

- **Competition risk:** Lucrative industry growth opportunities attract competition from a host of domestic and multinational players.

  Mitigation: Rich experience, robust client relationships, unparalleled brand equity, strong supply chain, superior product quality enable the Company to keep all competition at bay.

- **Concentration risk:** Business sustainability can be impacted if dependent on the performance of a particular or few downstream sectors.

  Mitigation: Revenue pie comprises a large number of downstream sectors like personal care, air care, skin & hair care, beverages and fine fragrances. Well diversified exposure helps reduce risk of revenue concentration on the performance of a particular sector.