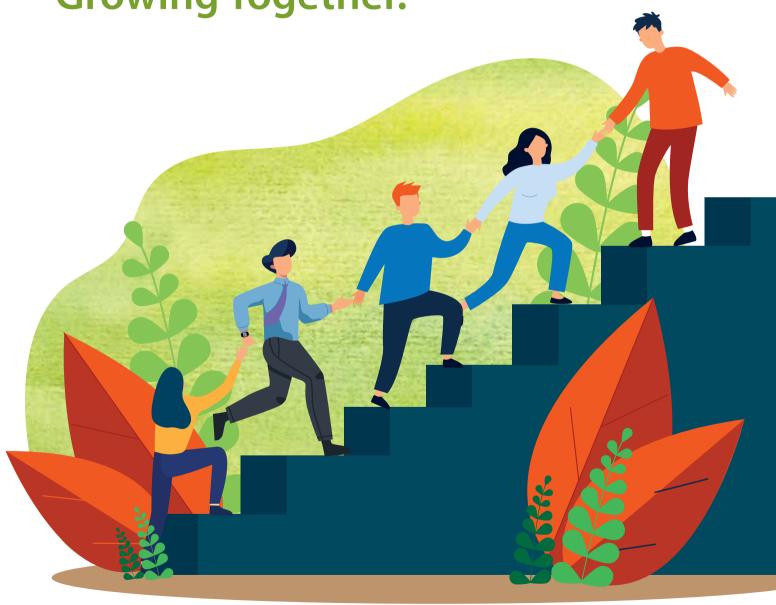


Progressing Together. Growing Together.



## **Contents**

1

### **CORPORATE OVERVIEW**

Message from the Whole-Time Director & Group CEO **01** 

2

### **Statutory Reports**

Management Discussion & Analysis

Board's Report

Report on Corporate Governance

Business Responsibility Report

61

3

### **Financial Statements**

Auditors' Report on Consolidated
Financial Statements 68
Consolidated Financial Statements 76
Auditors' Report on Standalone
Financial Statements 150
Standalone Financial Statements 158

Notice 225

To download or to read the report online, please log on to www.keva.co.in



# Message from the Whole-Time Director & Group CEO

### Dear Shareholders,

I am happy to share that in a challenging year, with just 11 productive months, we succeeded in posting a healthy performance. Amid an extremely challenging macro-environment, we reported our highest ever PAT (before extraordinary items & before CFF addition) during the year. Aided by strong recovery in the domestic market and a good demand uptick in the global markets, we also surpassed our sales of FY 2019-20 to achieve our targeted growth of 12% (on a like-for-like basis). What is notable about this performance is that we were able to hold our ground even though the COVID-induced lockdown led to a complete washout of one month of business operations.





As we move forward in the face of what appears to be a bigger challenge in the form of the second COVID wave, we remain committed to employee safety and welfare, in line with our `Safety First' proposition.

FY 2020-21 tested our mettle in many ways but we remained steadfast in the face of hard times and stayed on course to sustain our growth momentum. The collective efforts of our people, backed by our technological expertise, enabled us to quickly and efficiently align our business model with the overwhelming external transformations triggered by the COVID outbreak. The culture of business discipline that we have actively nurtured across the organisation further pushed the excellence levels across functions. It helped us realise the vision we had mapped last year, to build on a Resilient Present for a Resurgent Future, even amid the unprecedented pandemic situation.

Several decisive factors propelled our strategic journey during the year, contributing to our positive performance.

- > The proactive steps and COVID safety initiatives we took to protect the lives of our people and safeguard their interests and well-being, kept them motivated and imbued them with a `can-do' spirit, which inspired them to take ownership of your Company's visionary goals
- > Our unwavering focus on augmenting our operational and cost efficiencies, through optimisation and rationalisation, further steered our efforts to deliver sustainable growth and value for all our stakeholders. Our strategic shift from a largely fixed to a predominantly variable cost structure was also instrumental in pushing growth
- > We continued to pursue a healthy product mix, with new and more relevant offerings, which helped us maintain profitability margins at healthy levels

- > We moved with agility and efficacy to address raw material supply challenges and supply chain concerns through various proactive measures. Our prudent inventory management philosophy helped in efficient management of the moderate inflation in our raw materials during the year
- > Geographical diversification, with a strong presence in several countries including the Middle East and the South East Asia, helped us maintain business continuity across regions
- > Restructuring of roles ensured more effective management of functions during the year, while our long-standing reputation and strong customer relations facilitated continued business growth and revenue generation
- > We completed the full acquisition of Creative Flavours & Fragrances (CFF) in July 2020. This has enabled us to entirely transform the business complexion of Keva and broaden the ambit of the Group's fragrance business

### **COVID RESPONSE**

The extraordinary circumstances catalysed by the pandemic necessitated an exceptional response during the year. Protecting lives and livelihood became our top-most priority and we moved with agility to launch a multitude of health and safety measures for our people and the communities around which we operate. We were clear that in order to operate, it was imperative for us to keep our people safe. This ethos helped in keeping the people motivated and ready to take on any challenge and when operations resumed post the lockdown, it also inspired them to put in their best to support the Company in bringing business back on track.



We went the extra mile to support the people in the extremely difficult environment that prevailed particularly during the lockdown period. From arranging safe transport, to housing them safely in our factories, we took all possible measures to minimise the risks to our employees amid the pandemic. Robust safety protocols

were put in place and strictly implemented at the plants and other places of work. Immunity-boosting supplements were distributed not just to our staff members but also to our contractors.

As we move forward in the face of what appears to be a bigger challenge in the form of the second COVID wave, we remain committed to employee safety and welfare, in line with our 'Safety First' proposition. We are now fully people-ready and while continuing to ensure their total protection, we are moving expeditiously to get the majority of our employees and their family members vaccinated.

### **KEY FINANCIAL HIGHLIGHTS**

Despite the revenue losses suffered in the first one month of the year, we posted good financial performance across all the key metrics of growth during the year. Better product mix and higher operating leverage and traction in domestic fragrance business resulted in improved profitability performance, while a stable raw material environment and a series of ongoing cost optimisation measures further enhanced margins. Creative Flavours and Fragrances SpA (CFF), our wholly-owned subsidiary, also delivered steady performance during the year. The global markets did see some downturn, causing sales to plunge but the business normalised at the back of our targeted interventions.



Keva's unit in Mulund, Mumbai

Your Company showed growth across the key metrics of performance, with revenue from operations growing 19%, to ₹ 1,315.1 crore, as against ₹ 1,105.1 crore in the previous fiscal. On a like-to-like basis, revenue growth was 3.1%, at ₹ 1,139.8 crore. While EBITDA stood at ₹ 259.4 crore as against ₹ 166.0 crore (up by 56.2%), EBITDA margin for FY 2020-21 was 19.3% against 14.8% in FY 2019-20. Reported PAT stood at ₹ 144 crore, as against ₹ 35.9 crore in the previous fiscal. PAT, excluding exceptional gain and loss, showed a stupendous YoY growth of 84.4%, to touch ₹ 131.2 crore in FY 2020-21, as against ₹ 71.2 crore in FY 2019-20.

I am also happy to share that the Board of Directors has recommended a dividend of ₹ 0.75 per equity share, which is in addition to an interim dividend of ₹ 1 per share announced in November 2020.

### **MAJOR OPERATIONAL HIGHLIGHTS**

As the operating environment moved towards normalisation after the first quarter, we saw an improvement in the traction as more order enquiries started coming in. Client engagements and business wins were robust across domestic and international markets after the initial demand depression in the first couple of months of the fiscal.





Mr. Kedar Vaze Whole-time Director & Group CEO

Mr. Ramesh Vaze Chairman of Board 66 As part of our consistent 3I 3C focus, we made another acquisition in Italy. Keva's wholly-owned subsidiaries, Keva Italy and CFF, entered into an agreement for acquisition of 70% equity stake of Nova Fragranze S.r.l. (Nova).

Rationalisation of R&D, along with incremental improvements in yield, customer distribution and market share, also led to sustained growth. To further boost business efficiencies and enhance customer experience, we strengthened our digital and technological framework during the year, to make it more seamless and efficacious. Our investments in both, the back-end and front-end digital infrastructure, yielded rich benefits in the form of new customer wins and supply chain efficiencies.

As part of our consistent 3I 3C focus, we made another acquisition in Italy. Keva's wholly-owned subsidiaries, Keva Italy and CFF, entered into an agreement for acquisition of 70% equity stake of Nova Fragranze S.r.l. (Nova). Nova, an Italy-based company specialising in fragrance development and marketing, gives us greater access to premium customers in the high-end product segments of hair care and beauty care.

I am also happy to share that Keva has become the exclusive distributor for Isobionics Santalol in India. The new fragrance ingredient is the first joint product from BASF and Isobionics and is now available for the Indian market through SHK.

In terms of segmental operations, the Fragrance division witnessed normalisation in demand and improved business wins, resulting in healthy volume off-take in the domestic market, particularly in the second half of the fiscal. New wins from the existing large and mid-size FMCG customers in the domestic markets further assisted growth. These wins were propelled by the strong demand environment on FMCG consumption in both domestic as well as the international markets of Middle East, North Africa region and South-East Asia.

The Flavours division too, continued traction with existing and new customers, both in the domestic and global markets, resulting in improved performance.

### **WAY FORWARD**

While the concerns triggered by the second and a potential third wave of COVID, in India and some international markets, have clouded the horizon in the short-term, we are confident of our overall long-term prospects. We are fairly optimistic that, driven by our focussed initiatives and targeted interventions, we shall continue to deliver healthy growth going forward. The consumer consumption is largely expected to remain on an upward trajectory despite the problems in both the domestic and international markets and we are well-positioned to harness the demand opportunity.

As the lines between the fragrance and flavours sectors continue to blur, we find ourselves ideally placed to leverage our strategy of more value addition and product differentiation to tap the market opportunity. The fact that we are an established player in both these sectors gives us good headroom for growth in the market. We also have a significant pipeline of innovation, while our geographically diversified market presence gives us quick access to a large number of untapped customers, especially in the overseas market.

In the coming guarters, we are looking at further augmenting our 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 newage tools for ground-breaking developments in the fragrance and flavours industry.

We shall further strengthen our 3I 3C strategy, going forward, with continued investments in India and Italy and proactive efforts to expand into the Indonesian market. Having already established ourselves as a strong player in the Italian market, we are looking to expand our footprint to other European countries by using our offices in the Netherlands and Italy in combination. We are looking mainly at geographic expansion in the low penetrated markets, while pursuing innovation and value-added products, such as health and wellness through Ayurveda offerings, to expand our business with existing clients in India. MNC global clients will be a major target area for our expansion plans and in the domestic market, it will be our concerted endeavour to grow our offerings in terms of the wallet share.

Given the shift in consumer desire for more personalised and customised products amid the increasing popularity of e-commerce in the transformed business environment, we shall move towards more regionalisation and customisation. Our deep understanding of market trends and consumer aspirations will drive our growth on this front.

At the same time, we shall continue to expand our CSR ambit to reach out to the vulnerable sections of the communities in our neighbourhood with COVID-support measures. We shall further expand the initiatives we launched during FY 2020-21 to help various individuals, trusts and other organisations working on the ground with the COVID-affected people. Our plan is to double down on our CSR/social upliftment investments in the coming months, as we scale up our community outreach amid the continuing pandemic crisis.

### SIGNING OFF...

In conclusion, I would like to thank every stakeholder, from the employees and the management, to our business channel partners and shareholders, for their continued support in these difficult times. You made it possible for us to not just survive but to sustain growth amid the unprecedented COVID crisis. I am confident that your trust and co-operation will continue to inspire us to scale new horizons in our quest to raise the bar of performance, as we expand across segments and geographies, across the world, while remaining rooted in the legacy of our Indian ethos.

### **Kedar Vaze**

Whole-time Director & Group CEO



# **Management Discussion** & Analysis



Keva's manufacturing unit in Vapi, Gujarat

### **GLOBAL ECONOMIC OVERVIEW**

The year 2020 was a challenging period with lockdowns of most global economies posing a threat of deep recession. However, sizeable, swift and unprecedented fiscal, monetary and regulatory responses by most Governments helped to maintain disposable income for households, protect cash flow for firms, and support credit provision. Coupled with China's quick recovery and better than expected GDP outturns in large advanced economies, the global contraction for 2020 is estimated at 3.3%. Massive vaccination drives and additional policy support in few large economies have raised hopes of a turnaround in 2021 with growth expectations of 6% followed by 4.4% in 2022. The strength of the recovery is projected to vary significantly across countries, depending on access to medical interventions, effectiveness of policy support, exposure to cross-country spillovers and structural characteristics entering the crisis. Strong multilateral cooperation is required to bring the pandemic under control everywhere. Such efforts include bolstering funding to accelerate access to vaccines for all countries, ensuring universal distribution of vaccines and facilitating access to therapeutics at affordable prices for all.

The softening of the pandemic in early 2021 is expected to give way to rising momentum in the latter half of the year as vaccines and therapies become more readily available, allowing contact-intensive activities to strengthen. Advanced economies contracted 4.7% in 2020 but are expected to grow at 5.1% in 2021. Emerging markets witnessed lower economic impact than advanced economies in 2020 at 2.2% contraction and higher expected growth at 6.7% in 2021. The sizeable fiscal support announced for 2021 in some countries, including most recently in the United States and Japan, together with the unlocking of Next Generation EU funds, will help lift economic activity among advanced economies with favourable spillovers to trading partners. With growing vaccine availability, improved therapies, testing and tracing, local transmission of the virus is expected to be brought to low levels everywhere by the end of 2022. Some regions and countries will witness lower local transmissions sooner than others depending on country-specific circumstances.

Source: IMF, World Economic Outlook - April 2021

66 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.

### INDIAN ECONOMIC OVERVIEW

India was amongst the few countries that went into a nationwide lockdown post the pandemic and after that, the economy unlocked in phases. Mobility restrictions and social distancing led to unparalleled supply-chain disruptions and consumer demand fallout. In the second half of FY 2020-21, restrictions on inter-state movements were lifted to ensure mobility of goods, thereby easing supply-side pressures. This is also reflected in the industrial activity pick-up. Stronger car sales, rising finished steel production and diesel consumption, higher goods and services tax revenue collections and improvement in the availability of finance from banks and internal sources suggest that even though economic activities are still below the pre-COVID levels, pent-up demand and festivities have added to buoyancy in economic activity.

The provisional estimates of National Income for FY 2020-21 by the National Statistics Office indicate real GDP contraction at 7.3% for FY 2020-21 distorted on account of significant growth of subsidies. A sharp recovery in GDP growth was witnessed in O3 FY 2020-21 at 0.4% as compared to the steepest ever 24.4% contraction in Q1, and 7.3% contraction in Q2. The recovery in economic activity and improved

investor sentiments are a result of impactful reforms undertaken by the Government since March 2020. In order to boost the economy, the Government has initiated several investment-focussed spending programmes like the National Infrastructure Pipeline, demand-driven capex, and the Centre's Production-Linked Incentive (PLI) scheme.

As a result of recovering investor sentiment, recovery in manufacturing and construction activities, investment-focussed Government spending and massive vaccination drive undertaken by the Government, India's GDP growth is likely to rebound to 8.3% in FY 2021-22 supported by strong fiscal and quasi-fiscal measures. The localised lockdowns in several states led by the unprecedented second wave of COVID-19 has impacted the recovery to some extent. Economic activity is expected to recover post the temporary collapse witnessed in the first quarter of FY 2021-22 led by pent-up demand similar to that seen post opening up of economy after the first wave.

Source: World Bank, CSO provisional estimates

### THE GLOBAL FLAVOURS AND FRAGRANCES INDUSTRY

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.





Keva's Herbal Extraction plant in Vapi, Gujarat

With about 86% 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.

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. High consumption of

convenience and processed food and a fast-paced food and beverage industry are the major driving factors for the rapid growth of the flavours and fragrance industry in these markets. Foreign players from the flavour and fragrance industry are rapidly expanding their footprints in these regions to better cater to the innovative nutritional flavours satiating the increasing demand of consumers.

Source: https://www.mordorintelligence.com/industryreports/flavour-and-fragrance-market

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. 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. 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: https://www.businesswire.com/news/home/20200907005051/en/Global-Flavours-and-Fragrances-Market-Demand-with-COVID-19-Recovery-Analysis-2020-New-Product-Launches-to-Boost-Market-Growth-Technavio

One of the major challenges for players in this industry is to address constantly changing flavour and fragrance demands from consumers. Although fragrance usage is on the rise, the availability of quality essential oils for fragrance creation is not sufficient to keep pace with the increasing demands. The COVID-19 pandemic presented several challenges to the industry due to disruption in manufacturing during lockdowns but the demand post lockdowns and the added importance to hygiene has boosted overall demand for fragrances and flavours. Detergents, deodorants, soaps and incense sticks continue to be very much in demand. Fine fragrances remained the worst-hit category as most of these are sold in the duty-free stores which have been shut owing to the pandemic.

### THE INDIAN FLAVOUR AND FRAGRANCE INDUSTRY

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% of a product's volume and under average of 5% 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.

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% 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% 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% of the global fragrances and flavour market despite having 20% 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

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 smallscale industrial units and local manufacturers.

for foods, cosmetics, personal care and household care products is expected to be the major driving factor for the growth of aroma chemicals market.

Source: https://jstinvestments.com/flavours-fragrances/#:~:text=The%20global%20 Flavours%20and%20Fragrances,with%2020%25%20of%20the%20population





### Outlook

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 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.

### **Outlook for fragrance segment**

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.



Keva's Flavours Laboratory at Mulund, Mumbai

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 for flavour segment**

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.

### FRAGRANCES – GROWTH DRIVERS

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

### FLAVOURS - GROWTH DRIVERS

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

### **Opportunities**

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.

Your Company remains committed to its target of becoming

# **US\$ 1 billion** business globally by the end of the decade

### **FINANCIAL PERFORMANCE ANALYSIS**

In FY 2020-21, on a consolidated basis, total income stood at ₹ 1,345.40 crore as compared to ₹ 1,122.1 crore in FY 2019-20, up 19.9% led by healthy demand and enquiries with normalisation in business activities across both domestic and international markets. Robust business of the mid and large-sized FMCG customers amidst COVID-19 pandemic resulted in continued steady demand flow. In addition, Creative Flavours & Fragrances SpA (CFF), the Company's wholly-owned subsidiary, also delivered an encouraging performance supported by robust demand and volume off-take in the European markets. Excluding CFF contribution, on a like-to-like basis, revenues grew by 3% YoY, without adjusting for the period of disruption.

10 S H Kelkar and Company Limited





Keya's Centre of Excellence in Amsterdam, Netherlands

The Company's primary segment, fragrance contributed ~90% to total revenue registering 5% growth in India and 198.7% growth in Europe. The fragrance business in rest of the world degrew marginally by 0.4%. Flavours segment grew by 7% in India and by 319% in Europe and de-grew by 8.6% in rest of the world.

In FY 2020-21, EBITDA came in at ₹ 259.35 crore as compared to ₹ 165.98 crore in FY 2019-20 reflecting higher operating leverage led by prudent inventory management combined with sustainable cost optimisation measures. PAT stood at ₹ 143.98 crore in FY 2020-21as compared to ₹ 35.86 crore in FY 2019-20.

### **COVID-19 Pandemic**

The spread of the COVID-19 pandemic and the resultant lockdowns in the country caused overall temporary disruption in manufacturing and business activities, more prominently in April and May, 2020. However, there was no material impact on orders even amidst lockdown as the Company caters to many FMCG companies whose business continued as normal. In fact, COVID-related categories like personal wash and fabric wash saw increased demand. Demand in both flavours and especially fragrances increased for categories like floor cleaners, sanitisers, soaps, immunity products etc. Globally, similar lockdowns and restrictions across the international markets led to slight slump in demand and sales during the beginning of the year.

In these extraordinary times, the Company's concerted efforts to maintain a strong financial and operating discipline enabled the Company to fulfil business commitments despite the operating constraints. The Company remained committed towards safety and well-being of all its employees and arranged for work-from-home arrangements for all the staff members wherever possible. The employees exhibited highest level of commitment, tenacity and patience and the Company with strong support and co-operation from its Union, managed to resume manufacturing operations. With requisite approvals from the concerned Government

Authorities, the Company was able to maintain steady manufacturing through various strategies including work shifts for different employees from different areas, arranging for employee stays in the factory, running local buses for safe travel, getting appropriate tests done, etc. Across its manufacturing locations, the Company ensured strict adherence to all necessary precautions and maintained highest safety standards as advised by the Government Authorities.

Prioritising utmost safety at all times, the Company managed to surpass all previous production records, month after month, led by strong dedication and commitment from all employees. The Company boosted employee morale for exhibiting bravery amidst crisis. The Company also offered excellent benefits like extra wages, medicines, insurance, etc. thereby creating an amicable win-win situation. The Company's robust documentation, adherence to norms and empathetic response was highly appreciated by government authorities and locals alike.

A combination of improving economic indicators and the festive season strengthened demand and consumption across the country. The Company, thus, could sustain its growth momentum. While there is reasonable optimism, the economic and social impact of the second wave of COVID-19 needs to be closely monitored. In keeping with all safety and precautionary measures to mitigate the risk, the Company is continuously keeping a close watch on operations and processes such that it poses minimal risks for the spread of the disease. It has also made all requisite arrangements for employees to stay comfortably and safely within the factory premises to ensure factories and laboratory work at full capacity without any disruption.

Robust recovery in the domestic macro-economic environment and positive indications of strengthening consumption raises hope of strong recovery. The Company's client engagements, especially the domestic FMCG players, continue to remain strong with steady wins across categories helping the Company to sustain growth momentum. The Company is confident of robust growth potential and opportunities across the domestic FMCG space as well as in the international markets over the medium to longer term. Once the macro situation normalises, growth is bound to accelerate. Cost-optimisation strategies, working capital measures, sustained production trend, healthy balance sheet and long-lasting strong relationships with all its stakeholders, are its success mantras to sustainably outpace industry.

### **Business Segment 1 - Fragrances**



Fragrance segment remains the primary revenue contributor with ~90% share in FY 2020-21. The products in the segment are used by various consumption categories including personal wash, soaps and detergents, sanitisers, home cleaners, fabric care, fine fragrances etc. The Company leverages the expertise of its specialised perfumers team combined with international innovation experience and Indian capabilities to craft innovative complex compounds and ingredients.

The Company is a leader in the Indian fragrance industry constantly growing ahead of the market led by its rich 9 decades experience, long-lasting customer and vendor relationships, deep understanding 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.

### Integration of Creative Flavours & Fragrances (CFF)

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%, 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.

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.

Revenue contribution is dominated by Italy (75%) catered to by a local sales team and some regional agents. European countries and Middle East contribute 20% and 5% respectively, serviced through a network of agents. The fragrances are mainly used in homecare products (42%) like air fresheners or cleaners, in fabric care products (22%) like laundry fragrance boosters or softeners, in beauty care products (22%) like shampoos or personal wash and in fine fragrance (5%).

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.

12 S H Kelkar and Company Limited



### **Key Macro Highlights**

- > The segment revenue increased 20.6% YoY aided by demand normalisation in the second half of the year and improved business resulting in healthy volume growth in the domestic business
- > While fine fragrances business faced pressure due to international travel restrictions, other segments like fabric care, personal wash, sanitisers, floor cleaners witnessed increased traction as importance of health and hygiene products grew led by COVID-19 pandemic
- > Robust sales from wholly-owned subsidiary, Creative Flavours & Fragrances SpA (CFF), further contributed to growth. CFF delivered a steady performance in its core fragrance division driven by increasing demand and volume offtake in the Italian and other European markets
- > There was a temporary global surge in raw material prices. However, the Company was able to foresee the transitory raw material volatility environment and proactively built up inventory levels. Prudent inventory management enabled the Company to maintain gross margin performance
- > Operational expenses have been kept in control with precise management of working capital and payables
- > Operating leverage enabled to increase throughput from the same manufacturing facility

### **DOMESTIC SALES**

### Highlights of FY 2020-21

- > Domestic sales grew by 5% despite losing one full month of sales due to COVID-19 nationwide lockdown
- > New wins from existing large and mid-size FMCG customers in the domestic markets aided growth
- > With robust inventory management, the Company was able to maintain margin amidst challenging raw material scenario

> Became the exclusive distributor for Isobionics Santalol in India. The new fragrance ingredient is the first joint product from BASF and Isobionics and is an alternative to sandalwood oil and is produced on a bio-technological basis from renewable raw materials

#### Outlook

The market is witnessing good traction of new product development with a slew of new launches seen around health soaps, sanitisers, and specific health-benefit products. The Company is working with existing and new clients to cater to these growing needs. The Company has an edge over competitors, given its strong leadership in the FMCG category. With a strong domestic portfolio, state-of-the-art manufacturing capabilities, robust inventory management and strong supply chain, the Company is well poised to capture new growth levers.

For its bio-technology innovation in the ingredients portfolio, the Company's R&D efforts are progressing in the right direction and the Company is establishing supply chain links for effective production. The Company is constantly working on prototype development and exploring new applications as well.

The Company is fully equipped to handle second or third waveled restrictions and ensuring that all factories and laboratory work at full capacity without any disruption. All requisite arrangements are in place for employees to stay comfortably and safely within the factory premises.

### **EUROPE AND REST OF THE WORLD**

### Highlights of FY 2020-21

With CFF delivering strong performance driven by robust volume off-take in the European markets, sales in Europe grew by 198.7%, post full consolidation of CFF into Keva from August 2020. Sales, in rest of the world, however, saw a marginal decline of 0.4%.

The Company established business relationships with new clients in new geographies. The Company sees good headroom from growth in the existing geographies as well where is striving to grow aggressively. New wins included extension of encapsulated fragrances technology to SEA markets.

The Company effectively moved several operations to work-from-home and with effective planning, business was managed smoothly.

In the SAMEA markets, the Company managed to meet revenue targets despite challenging environment given its strong dominance in the medium to small scale clients. Even amongst the large corporates, the Company has good business relationships. While growth was led by fabric care, personal wash, home care and health and hygiene products, fine fragrance category gained good traction in the second half of the year. The Company saw good traction in Bangladesh and Sri Lankan markets.

The European region saw a decline in the demand for fine fragrances, particularly in premium personal and beauty care segments where brands slowed down new launches. The demand was highly concentrated towards sanitisation category. Early signs of recovery were seen in the second half of the year in the luxury fine fragrances. The other sub-segments under fine fragrance segment like mass, internet sales, niche brands saw decent rise in demand.

### Outlook

Emergence of new categories gives Company to grow in the existing markets. Also the Company is constantly looking to expand geographical footprint to aid international business growth.

Given low penetration levels in the SAMEA market, the Company has huge scope for organic growth. The Company has chalked out a three-year plan for SAMEA region to grow across clientele - both big and small with focus on customisation. Future growth is expected to be driven by health and hygiene products and naturals segment. Regionally Certifications (Halal) are gaining increasing importance and become essential part of product offerings. Consumers continue to demand long-lasting fragrance experience which will further increase the opportunity in encapsulation across functional products.

In Europe, consumers are increasingly looking for sustainable and natural products. Also there is growing popularity of e-commerce. Given Keva's strong brand equity, small and large customers in this region approach the Company for various fragrance needs. Keva is the preferred fragrance brand even amongst fine fragrance companies. The Company is working with several fine fragrance players for a range of products to be launched in the coming year. Business processes in Europe have been reviewed in order to achieve better efficiency in manufacturing and creation. From FY 2021-22, CFF will act as the basis for growth in Europe, from a strong customer base in Italy, to become the leader on the Italian market.

The Company will focus on identified core categories for future growth leveraging the Company's creativity, competence and innovative spirit. In-house encapsulation technology, new captive fragrance ingredients and other innovations are expected to continue to create points of differentiation. The aim is to create a good balance in product portfolio across premium offerings and value for money solutions to ensure adequate profitability.



14 S H Kelkar and Company Limited



### **Business Segment 2 – Flavours**



With strong brand equity due to superior quality FSSAI approved innovative products, Keva is a leading manufacturer in flavour segment in India catering to various sectors like beverages, dairy products, confectioneries, bakery products, savoury, pharmaceuticals, nutraceuticals etc. The health and wellness and naturals segment are currently the high growth categories. The Company boasts of world-class state-of-the-art manufacturing facilities and well-equipped laboratory. The Company closely monitors market trends basis which its skilled team of 6 flavourists innovate flavours to strengthen its leadership in the segments. The team has created several flavours in the naturals category catering to the food science space.

### Scale with agility

The Company's superior product quality is a reflection of US FDA registration and Halal certification, which qualify its robust quality management system. With high clarity of purpose and process design, the highly agile team curates new flavours. Use of advanced planning techniques, variable capacities and strong relationships with reputed logistics companies enables the Company to promptly modify production and ensure high efficiency in logistics.

### **Products and applications**

The Company, which has a rich legacy in the flavours space, has developed a variety of flavours broadly categorised into natural,

nature-identical and artificial available in dry, mix, liquid and encapsulated forms. Based on ever-evolving consumer trends, the Company has developed products for different categories like shakes and smoothies in the dairy segment, fruit-based and health drinks in beverages, confectionery, bakery and pharmaceuticals.

### **DOMESTIC SALES**

### **Highlights of FY 2020-21**

- > Domestic revenue grew 7%, led by continued good traction with existing and new customers
- > Healthy product mix resulted in improvement in operating
- > Launched new product offerings which saw strong acceptance
- > Launched a new product called Ayush Kwath, an immunity booster which saw good traction amidst COVID-19 pandemic
- > Food industry has been witnessing strong growth with high uptick on processed food and food deliveries aiding the growth of flavours industry
- > Launched immunity boosters for the online retail market based on its newly developed Ayurvedic (immunity-boosting flavour) extracts following the Ayush guidelines formulation
- > Granules segment with 7-8 products targeting a few companies saw good response

- > Good traction seen in nutraceuticals and health supplements like protein powders and protein bars launched in the health and wellness segment
- > Launched natural flavours on Amazon and Flipkart under Keva brand name witnessing huge monthly orders
- > Natural flavours in the home use segment saw good uptick on
- > Started own e-commerce portal, kevaflavours.com which received good initial consumer response
- > Started separate B2B e-commerce portal on the website and increasing awareness through social media and digital
- > With start-ups buying huge quantities of natural flavours from distributors, the Company revisited and refurbished the natural flavours list in the distribution market
- > Witnessed wins in new categories and in key accounts in granules in bakery and milkshake markets

### Outlook

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 **66** 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

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.

### **EUROPE AND REST OF THE WORLD**

### Highlights of FY 2020-21

- In Europe, the flavours business grew by 319%. However, the segment witnessed a decline of 8.6% in rest of the world
- Witnessed strong traction with both new and existing clients
- > Made flavours compliant with certain new regulations in Europe. All flavours going into export market through Middle East and Europe are completely compliant with local regulations

The Company foresees good growth prospects in international markets especially in the food space. However, in case of specific downturn led by successive COVID-19 waves, increased travel restrictions and stunted growth in hospitality segment may impact growth. The Company is closely monitoring these events.