



# **POWERING AHEAD THROUGH UNCERTAINTIES**

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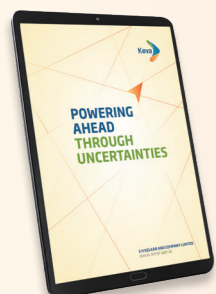
## NOTICE

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# MESSAGE FROM THE WHOLE-TIME DIRECTOR & GROUP CEO

*Dear Shareholders,*

I am pleased to share the Company's report card for FY 2021-22, which we exited on a steady and stable note despite a multitude of macro challenges prevailing in both the domestic and global markets. The pandemic-led disruptions and the inflationary raw material pressures impacted demand and restricted overall volume growth in our core business during the year. However, the uptick in demand and offtake in the European markets helped stabilise growth for SHK, as Europe witnessed double-digit growth for our acquired businesses during the year. The Emerging markets also contributed to the steady performance on our revenue front, driven largely by healthy demand, which we see sustaining in the coming quarters. In India, we saw improved wins from the large FMCG customers which helped offset the subdued contribution from smaller customers.



To download or to read the report online, please log on to [www.keva.co.in](http://www.keva.co.in)



OUR TOTAL INCOME FOR THE YEAR WAS HIGHER AT 17.6% AT ₹ 1,581.7 CRORE, WHILE EBITDA STOOD AT ₹ 232.1 CRORE. THE COST PRESSURES RESULTING FROM THE GLOBAL RAW MATERIAL INFLATION AND SUPPLY CHAIN CONSTRAINTS IMPACTED MARGIN PERFORMANCE, WHICH WE MITIGATED BY UNDERTAKING CALIBRATED PRICE HIKES IN COLLABORATION WITH CUSTOMERS. OUR PRUDENT INVENTORY MANAGEMENT LED TO SOME INCREASE IN THE WORKING CAPITAL BUT IT ENABLED US TO ENSURE SUPPLY CONTINUITY FOR OUR CUSTOMERS IN AN EXTREMELY CHALLENGING ENVIRONMENT – A FEAT THAT HAS BEEN WELL APPRECIATED BY OUR STAKEHOLDERS.

Our total income for the year was higher at 17.6% at ₹ 1,581.7 crore, while EBITDA stood at ₹ 232.14 crore. The cost pressures resulting from the global raw material inflation and supply chain constraints impacted margin performance, which we mitigated by undertaking calibrated price hikes in collaboration with customers. Our prudent inventory management led to some increase in the working capital but it enabled us to ensure supply continuity for our customers in an extremely challenging environment – a feat that has been well appreciated by our stakeholders.

With the pandemic situation easing and inflationary trends also on a downward curve, we will now focus on scaling back our inventory days to the original levels over the next 6-9 months, and striking a healthy balance between stock levels and supply chain demands. This is in line with our approach of adapting our strategy with agility to the evolving external trends.

Taking a closer look at FY 2021-22, we see that the tangible results of our structured interventions and our various business initiatives supported our efforts to maintain stability in performance amid the challenging macro environment. These have also infused a sense of optimism in our growth prospects for the coming years.

- ➔ The challenges in the environment did not derail our growth and expansion plans, and we undertook several focussed measures to enhance our global market presence, augment our niche offerings, and expand our customer segments through the year. Our efforts were aimed at steering accelerated growth for the Company in the medium to longer term
- ➔ Our focus on inventory management helped keep the gross margin erosion relatively in check in comparison with the industry, while enabling supply chain continuity
- ➔ Our participation in the global RFP (Request for Proposal) continued to progress well, and has set the stage for SHK to harness more global opportunities to drive the next leg of growth for us. We remain optimistic about the multi-year business potential from this global tender
- ➔ We moved with agility to revive operations at our Mahad facility, which was hit by floods following unprecedented rains in Maharashtra that led to suspension of production. This helped ensure that there was no consequent loss of business
- ➔ We partnered with Apollo Hospital and other local hospitals to fully vaccinate all our employees and their families. We also extended the vaccination drive to employees' relatives and secondary manpower and their relatives

#### Getting seamlessly back to office

SHK has always been committed to the welfare and wellbeing of its people, who we consider to be equal partners in our journey of growth and value creation. As business started getting back to normal after the second wave of COVID-19 had abated by the second quarter of the fiscal, we put in place

new guidelines and protocols to accommodate the B2W (Back to Workplace) initiative. As a mark of appreciation for their support and commitment during the work-from-home period, we also accorded special recognition to people across our sites and offices.

Prior to the reopening of the offices, emergency response teams were installed to ensure smooth and uninterrupted operations while maintaining the health, safety and welfare of our people. Besides formulation of SOPs for compliance, training in COVID friendly behaviour was provided, and COVID core committees were formed across sites to enable the safety, security and wellbeing of employees. Sensor/card reader based attendance system, sanitisation, bio bubble transport facility etc. were some of the other measures taken to keep our people protected at all times.

We also tied up with labs and hospitals for testing of employees across sites and offices at frequent intervals, in addition to the vaccination drive undertaken across sites. In addition, we obtained a Group Term Insurance Policy of ₹ 25 lakh for all employees to meet COVID-related exigencies.

#### Key Financial Highlights

A strategically focussed inventory policy, coupled with better product mix and our ability to pass on price increases, kept SHK on track with positive performance during FY 2021-22 despite the challenging macro environment. Our efforts translated into minimisation of the impact on gross margins and enabled us to maintain steady profitability margins. Our Europe business delivered robust growth on the back of improved client wins in the Italian and other European markets. In India, better wins from the large FMCG customers helped keep the overall domestic growth at moderate levels.

On a consolidated basis, our revenue from operations grew by 18.3% to ₹ 1,564 crore in FY 2021-22. Domestic core Fragrance revenues reported a 7.3% year-on-year growth while organic growth in the Flavour division was a healthy 14.4% over the previous year. Despite the challenging inflationary pressures, the Company managed to deliver 14.7% EBITDA margin. PAT also increased marginally by around 3% even though adjusted PAT was lower at ₹ 105 crore.



All our acquired businesses, including Creative Flavours and Fragrances SpA (CFF), Italy, Nova Fragranze Srl, Italy, Holland Aromatics BV, Netherlands, and NuTaste Food and Drink Labs Private Limited, India, delivered strong performance during the year. On a full year basis, CFF's core fragrance business grew by 21% year-on-year during the fiscal.

I am also happy to share that the Board of Directors have recommended a dividend of ₹ 0.75 per equity share of the Company.

### Key Operational Highlights

At Keva, we have been consistently working towards sustainable long-term growth across our business segments in our key geographies. FY 2021-22 witnessed a scaling up of our efforts to further enhance our operational strength. Healthy wins across markets, aided by targeted initiatives and participation in Global Request for Proposal (RFP), kept our strategic growth and expansion plans on track during the year.



A KEY DEVELOPMENT I AM PLEASED TO SHARE WITH YOU IS THAT YOUR COMPANY, WHICH WAS EARLIER SHORTLISTED BY A LARGE GLOBAL FMCG MNC AS ONE OF THE REGISTERED SUPPLIERS OF FRAGRANCES, IS NOW PARTICIPATING IN THE GLOBAL RFP. WE WILL ENGAGE WITH THE MNC ON AN INTERACTIVE PITCH FOR COMMERCIAL TENDER SUBMISSION, IN LINE WITH ITS STRATEGY OF ASSOCIATING MORE DEEPLY WITH LARGE GLOBAL MNCs.

A key development I am pleased to share with you is that your Company, which was earlier shortlisted by a large global FMCG MNC as one of the registered suppliers of fragrances, is now participating in the global RFP. We will engage with the MNC on an interactive pitch for commercial tender submission, in line with its strategy of associating more deeply with large global MNCs.

Another major step furthering our growth plans is the acquisition of Holland Aromatics BV and NuTaste Food and Drink Labs Private Limited, through the Company's wholly-owned subsidiaries – Keva Europe BV and Keva Flavours Private Limited. The acquisition of Holland Aromatics BV, a Netherlands-based niche fragrance manufacturer brings onboard a high potential company with strong local presence in Europe and complements our CFF business. It will strengthen our endeavour to tap upon diverse customer segments ranging from local MNCs, and particularly assist us in our endeavours to take global MNC business. Holland Aromatics' export business in Indonesia will also help propel our 3-I strategy. This synergistic acquisition will further equip the Company with additional capacity to play within the Group for effectively addressing the requirements of large projects.

NuTaste Food and Drink Labs Private Limited paves the way for our further expansion into high potential Flavour categories such as syrups, sauces, seasoning, fruit preparations, and other such premium grade products. It will give us accelerated momentum for growth in the fast-moving FMCG sector, particularly the QSR space, which we are strategically focussing on as a key area of future growth. NuTaste's complementary set of products will enable us to cater to the entire requirements of the FMCG, bakery, confectionery and pharma sectors. The acquisition complements our Flavour business and will help us grow this segment beyond the traditional R&D-led Flavour usage, for use in large canteens and some of the mid-sized food delivery and food companies which utilise Flavours in a ready-to-use form. This gives us another growth opportunity for our Flavours business.

### Scaling our Sustainability Proposition

At Keva, we have articulated a long-term growth strategy that goes beyond business excellence and profitability and is equally, if not more, focussed on creating a sustainable platform for holistic and inclusive value creation for the long term. Over the past few years, we have consistently aligned ourselves to the UN Sustainable Development Goals with the aim of reducing

emissions under Scope 1 – (Direct Greenhouse emissions) & Scope 2 (Indirect Greenhouse emissions), by cutting down on energy consumption, promoting efficiencies, minimising waste, and adopting recycling practices across the organisation. We have now stepped up our sustainability efforts and drawn up a 5-year roadmap to lower our carbon footprint and create a more enabling environment for sustainable future growth.

### The way ahead...

As we power ahead on our sustainable growth trajectory, our efforts will be focussed on adding geographies and customers to expand the outreach of our business and make it more value accretive for all our stakeholders. While the challenges of the past one year continue to linger on, we are confident that as an organisation with strong customer intimacy, innovation and product base, we shall find new and bigger opportunities for growth in the months to come. We believe it is these attributes that will differentiate the men from the boys in this business, and will provide us the differentiation needed to push forward with our plans to stay on course with double-digit growth.

Going forward, the nature of inflation (triggered by rising energy cost) may put a spanner in Europe's strong growth trajectory of the past two years but we see the growth again picking up after a slight pause. The Middle East and South Asia markets, in contrast, appear to be on the way to pick up the expected slack from Europe on the back of the economic recovery driven by oil prices. India is also clearly headed for a high growth trend, giving us a sense of optimism about the next fiscal.

In terms of segments, Fine Fragrance and Beauty, which fell behind to some extent during the pandemic, is likely to bounce back as a segment of growth the world over. The pandemic has increased awareness and improved the distribution of packaged food globally and we expect an exponential growth in the Flavours and Food businesses, especially in the domestic market.

Another positive factor that is likely to aid SHK's growth in the near future is the final wave of consolidation that seems to be taking place currently in the industry. The merger of DSM and Firmenich to establish a leading creation and innovation partner in nutrition, beauty and well-being signals a shift in the industry strategy, which is moving towards smaller players in the chemical industry merging into the large corporates. This augurs well for mid-sized companies like ours, leaving us space to grow and capture the niche created by this consolidation.

Our focus in the months ahead will be on expanding and augmenting our customer outreach to steer our sustained double-digit CAGR. We shall continue to move forward on our acquisition strategy, which has aided the Company's growth in the past, to further expand our customer base across geographies. Our active participation in large MNC tender processes will further pave the way for SHK to become a notable player in the global F&F industry, with the global MNC contract for which we have tendered expected to distinguish SHK in terms of affordability and cost structure vis-à-vis global players.

### In Conclusion

On this positive note, I would like to take this opportunity to thank our employees, the management, business channel partners, investors, shareholders and all other stakeholders for the trust and support they continue to extend to us in our onward journey. With their cooperation, I am confident of staying on course with our long-term sustainable growth plans.

### Kedar Vaze

Whole-time Director & Group CEO

# Management Discussion and Analysis



## Economic overview

### Global economy

The second wave of the coronavirus impacted economies across the globe in 2021, though at different peak periods, causing lockdowns, restrictions to mobility and severely impacting the global supply chain. In advanced economies, goods consumption increased rapidly, leading to overloading of global supply chain networks. COVID-19 related obstructions led to disruption in the global supply chain eventually culminating in shortages and rising prices for imported consumer goods.

Output and investment in advanced economies are projected to return to pre-pandemic trends in 2022 led by successful control on the pandemic with effective vaccination rollout. However, 2022 started on a weak footing led by new Omicron COVID-19 variant related mobility restrictions, geopolitical tensions, rising energy prices and supply disruptions. Broad-based inflation was seen in the United States and many emerging markets and developing economies. Global growth is thus expected to moderate from 6.1% in 2021 to 3.6% in 2022 and 2023.

Beyond 2023, global growth is forecast to decline to about 3.3% over the medium term. Inflationary pressure is expected to persist driven by war-induced commodity price increases and broadening price pressures. Multilateralism, the importance of

the transfer of climate finance and low-cost technologies from developed to developing countries have become more critical, as the world is undergoing a phase of exceptional uncertainty.

(Source: IMF April 2022 – World Economic Outlook, World Bank January 2022 – Global Economic Prospects)

### Indian economy

India is on the path to a sustained economic recovery, led by the vigorous countrywide drive to deliver safe and wide-reaching COVID-19 vaccinations. Significant improvement and investment in logistics infrastructure, incentives to facilitate industrial production, and measures to improve farmers' income have provided the necessary support to the country's economic recovery process while the world grapples with economic slowdown.

According to provisional estimates by National Statistics Office (NSO), the Indian GDP is expected to surpass the pre-pandemic level by growing at 8.7% in FY 2021-22, after recovering from a historic contraction of 6.6% in the preceding year. Private consumption is expected to witness robust growth though the services sector is expected to see muted performance.

Inflation will likely increase to 5.8% in FY 2021-22 amid rising oil prices, according to Asian Development Bank's forecast. While

monetary policy will remain accommodative, most central banks will resort to rate hikes. Foreign direct investment inflow is expected to moderate amid rising global uncertainty and tightening of global economic and financial conditions. The forecast has pegged India's economic growth to 8% in FY 2022-23, supported by increased public investment in infrastructure and a pickup in private investment.

Source: <https://www.adb.org/news/indian-economy-grow-7-5-fy2022-8-fy2023>; National Statistics Office's provisional estimates

## Industry overview

### Global Flavours & Fragrance industry

The global flavours and fragrances market was valued at US\$ 29.6 billion in 2021, as per IMARC research. While consumers are increasingly demanding natural flavours and fragrances, the higher costs of natural products are proving to be a hindrance.

Flavours find the majority of their application in the beverage and dairy segments, which together account for over half the applications of the product. The industry is aided by the rising demand for RTD and low-calorie beverages. As consumers are moving away from carbonated drinks, the flavoured milk segment is witnessing a growth, further aiding the flavours industry. Soap, detergents, toiletries, and cosmetics, on the other hand, account for over 55% of the fragrance applications.

The global flavours and fragrances market is being driven by the rising population and rapid urbanisation. The increasing disposable incomes combined with the rise in the middle-class population are further driving the industry. The growing awareness of hygiene and cleanliness through marketing campaigns and advertisements is also expected to aid the industry. As manufacturers and consumers are becoming more environmentally conscious, major players in the industries are investing in creating a sustainable supply chain.

Europe is the largest flavours and fragrances market accounting for over 25% of the industry. Germany is the leading market in the region, representing over 20% of the regional market. Western European economies like the UK and France are the other significant regional markets on the continent. North America and the Asia Pacific are also major players in the industry. While the industry is being driven by the rising demand for low-carbohydrate and low-fat food and beverages, and increasing demand for premium personal care products in North America and Europe, in the Asia Pacific, the industry is being propelled forward due to the increased consumption of scented personal care products, especially in India and China.

The flavours and fragrances market is expected to witness a robust growth in the coming years, particularly in the emerging economies. With the growth in the spending power of consumers in the emerging economies, we are seeing an



**THE GLOBAL FLAVOURS AND FRAGRANCES MARKET IS BEING DRIVEN BY THE RISING POPULATION AND RAPID URBANISATION. THE INCREASING DISPOSABLE INCOMES COMBINED WITH THE RISE IN THE MIDDLE-CLASS POPULATION ARE FURTHER DRIVING THE INDUSTRY. THE GROWING AWARENESS OF HYGIENE AND CLEANLINESS THROUGH MARKETING CAMPAIGNS AND ADVERTISEMENTS IS ALSO EXPECTED TO AID THE INDUSTRY. AS MANUFACTURERS AND CONSUMERS ARE BECOMING MORE ENVIRONMENTALLY CONSCIOUS, MAJOR PLAYERS IN THE INDUSTRIES ARE INVESTING IN CREATING A SUSTAINABLE SUPPLY CHAIN.**

upsurge in personal care products, especially those targeting the masses, in the developing economies is aiding the fragrance segment growth.

The rising innovations in the segment are providing further impetus for its growth. The flavours segment is being aided by the shift towards low-calorie foods and beverages, which require additional enhancements to their flavours.

Source: <https://www.expertmarketresearch.com/reports/flavours-and-fragrances-market>

### Outlook

According to IMARC group, the global flavours and fragrances market is projected to grow ~4% CAGR to reach US\$ 37.8 billion by

2027. A key driver of the global flavours and fragrances market is the strong growth in the food and beverage industry. Catalysed by a rising global population and increasing urbanisation rates, the demand for processed foods and beverages has been witnessing a continuous growth, creating a positive impact on the growth of the market. Moreover, driven by rising incomes, changing lifestyles and increasing consciousness towards physical appearance, the market for personal care products has also been witnessing a strong growth creating a strong demand for flavours and fragrances. Other major factors driving the market include emerging markets, rising demand for organic and natural products, growing young population, etc.

**Source:** Flavors and Fragrances Market Size, Share and Forecast 2022-2027 (imarcgroup.com)

### Challenges

With growing competitive intensity, key players are focussing on developing novel flavouring and fragrance mixes and investing heavily in R&D. Lack of proper regulations have resulted in serious irregularities in the pricing of the majority of the products. Depending on the Company, price ranges from a few dollars per litre to hundreds of dollars per litre. This critically impacts market growth and prevents potential end-consumers from adopting quality products in their manufacturing processes.

COVID-19 pandemic apart from disrupting supply chains across the globe, impacted sensory improvements products sales as the infection led to the loss of smell and taste among many patients. Both anosmia and parasomnia were observed in patients. This presented a unique challenge to the flavouring and fragrance companies to develop solutions.

**Source:** <https://www.fortunebusinessinsights.com/flavors-and-fragrances-market-102329>

Indian Flavours & Fragrance industry (Overview, Outlook for Fragrance Segment, Outlook for Flavour Segment, Opportunities, Growth Drivers)

Considered as an ancillary industry to FMCG, food processing and pharma industries, the Indian fragrances and flavours industry is well distributed across the country. According to the Ministry of Micro, Small and Medium Enterprises, Government of India, the Indian fragrances and flavours industry size is estimated at 20% of the global flavour and fragrance industry. The Indian F&F market is highly fragmented with both purchasers and suppliers ranging from MNCs and large Indian industrial houses to small-scale industrial units, and local manufacturers. There are over 1,000 small, medium and large size enterprises operating in this industry, which is in the form of organised and unorganised sectors. A significant part of the ingredients come from extracts of natural plants while the bulk is aroma chemicals and synthetics which are used in this industry.

India has made a significant impact in global fragrance oil markets by producing essential oils of menthol mint, sandalwood, jasmine, tuberose, and spices. Similarly, there are more than 1,000 synthetic aromatic molecules or ingredients of which around 250 constitute more than 90% of global aroma chemical production. A large majority of these are manufactured as well as exported from India to key international markets making India a key player in the global fragrance supply chain. In 2020, The Fragrances and Flavours Association of India (FAFI) inaugurated its R&D centre in Mumbai. The R&D centre is open to its 900 members from raw ingredients, distributors to finished products manufacturers.

The Indian fragrances and flavours industry is considered one of the fastest growing industries globally and a significant competitor to China in terms of exports. However, due to the



*Fragrance Laboratory at Creative Flavours and Fragrances Spa, Italy*

temporary lockdown in the country, the Indian industry was fearing to lose its ground to China.

**Source:** <https://www.indianretailer.com/news/indian-fragrances-and-flavours-industry-fears-losing-its-ground-to-china.n10038/>

### Outlook

With its rich diversity of flora and fauna, Indian fragrances and flavours industry is projected to grow exponentially in the coming years due to increasing demand for personal care products, brand awareness, growing demand from the middle class due to rising disposable incomes and products now being available at affordable price points. The Indian fragrance and flavour market is estimated to grow at 15% CAGR to reach US\$ 3.3 billion by 2025.

### Outlook for fragrance segment

The Indian fragrance market is expected to be valued at US\$ 1.812 billion in the year 2024 at 16% CAGR. This growth can be attributed to the rising personal care, increasing disposable income, and growing demand in middle-class people.

As a result of the COVID-19 pandemic, all fragrance types are projected to see slightly slower growth in market value sales in 2020 than the previous year. Premium fragrances, especially premium men's fragrances, will see the steepest declines in both volume and value sales. The fragrances group is expected to rebound in 2021, following a drastic drop in market value sales in 2020.

**Source:** <https://chemicalmarketforecast.com/fragrance-and-flavor-industry-in-india/?msclid=8333957bc20311eca50a28c5da8ed0a8>

### Outlook for flavour segment

The growing demand for processed food products is driving the market growth of food flavour industry. Food manufacturers require flavours for launching new products, extending existing product lines

or changing processes for previously launched products. Increasing innovation in food flavours to cater to consumer demands owing to changing preferences and cultural differences is also expected to encourage market growth. The flavour of food products can be easily altered by changing its smell while retaining the original taste of foods. For instance, flavoured jellies, cold drinks, and chocolates or candies that taste and smell different due to addition of different flavours such as cola, lemon, orange, raspberry, etc.

Floral flavours are one of the major flavouring trends in the Indian market. The floral and fruity products are added to bakery products and beverages for giving a natural aroma and taste. Floral flavours such as jasmine, rose, elderflower, hibiscus, lavender, orange blossom, and chrysanthemum provide delicate and exotic tastes that offer a touch of ideas and taste to otherwise typical products.

**Source:** <https://www.gmi-research.com/report/india-food-flavors-market-analysis-industry-research/#:~:text=In%202020%2C%20The%20Fragrances%20and%20Flavours%20Association%20of,from%20raw%20ingredients%2C%20distributors%20to%20finished%20products%20manufacturers.>

### Opportunities

With a rise in disposable income and improved awareness regarding personal hygiene, people are not hesitating to splurge on fragrance products, thereby propelling the growth of the market.

Increased adoption of smartphones and the Internet, especially in tier II and tier III cities, has made e-commerce websites accessible to customers, thus facilitating online shopping. This leads to increased awareness about new flavours and fragrances in addition to increased consumption of FMCG products.



**CONSIDERED AS AN ANCILLARY INDUSTRY TO FMCG, FOOD PROCESSING AND PHARMA INDUSTRIES, THE INDIAN FRAGRANCES AND FLAVOURS INDUSTRY IS WELL DISTRIBUTED ACROSS THE COUNTRY. ACCORDING TO THE MINISTRY OF MICRO, SMALL AND MEDIUM ENTERPRISES, GOVERNMENT OF INDIA, THE INDIAN FRAGRANCES AND FLAVOURS INDUSTRY SIZE IS ESTIMATED AT 20% OF THE GLOBAL FLAVOUR AND FRAGRANCE INDUSTRY. THE INDIAN F&F MARKET IS HIGHLY FRAGMENTED WITH BOTH PURCHASERS AND SUPPLIERS RANGING FROM MNCs AND LARGE INDIAN INDUSTRIAL HOUSES TO SMALL-SCALE INDUSTRIAL UNITS, AND LOCAL MANUFACTURERS.**

In recent years, Indians have been exposed to global trends, resulting in higher demand for international fragrance and flavours.

There is a spurt in acceptance of new flavours and fragrances giving rise to product innovation with differentiation only in smell or taste.

COVID-19 has contributed significantly to the already popular natural products demand.

#### Fragrances – Growth drivers

- ➔ Rise in the disposable income
- ➔ Improved awareness regarding personal hygiene
- ➔ People no longer hesitate to splurge on premium fragrance products
- ➔ Growing exposure to global trends, resulting in higher demand for international fragrance brands
- ➔ Continued growth in personal care category
- ➔ Emerging use of fragrance in newer products like paint, fabrics, stationery, toys, household care

#### Flavours – Growth drivers

- ➔ Growth in savoury market
- ➔ Increasing demand for packaged, ready-to-eat food items and beverages
- ➔ Rising utilisation of flavouring ingredients in bakery and confectionery items, ice-creams, smoothies, energy drinks, etc.
- ➔ The elevating levels of urbanisation and increasing penetration of numerous western food trends
- ➔ Escalating popularity of processed and shelf-stable food products
- ➔ Growing use of natural flavours in newer categories like oral care, skin care etc.

#### Financial Performance Analysis

Consolidated total income grew 17.6% in FY 2021-22, to ₹ 1,581.7 crore from ₹ 1,345.40 crore in FY 2020-21. The growth is attributable to a surge in demand for discretionary and non-discretionary products, with reopening of economic activity. Europe business delivered strong double-digit growth driving overall growth.

Emerging markets contributed to 78% of business with 7% growth over previous year and Creative Flavours and Fragrances S.p.A's core business grew at 21% in FY 2021-22.

EBITDA declined by 10% to ₹ 232.14 crore in FY 2021-22 from ₹ 259.34 crore in FY 2020-21 led by inflation in raw material cost which impacted gross margin and profitability of the Company.

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**THE INCOME TAX APPELLATE TRIBUNAL (ITAT) AS PER ITS RECENT ORDER SET ASIDE THE ORDER OF THE COMMISSIONER OF INCOME TAX ('CIT') AND HAS DIRECTED THE ASSESSING OFFICER TO ALLOW AMORTISATION OF GOODWILL AS AN ELIGIBLE EXPENDITURE. THE TRIBUNAL HAS ALSO SQUASHED THE DEPARTMENT'S APPEAL ON THE OTHER TWO ISSUES FAVOURING THE CIT EARLIER. CONSEQUENTLY, THE COMPANY REVERSED THE ADDITIONAL TAX PROVISION AGGREGATING TO ₹ 64.5 CRORE FOR THE PERIOD BETWEEN FY17 AND FY21.**

The Income Tax Appellate Tribunal (ITAT) as per its recent order set aside the order of the Commissioner of Income Tax ('CIT') and has directed the assessing officer to allow amortisation of goodwill as an eligible expenditure. The Tribunal has also squashed the department's appeal on the other two issues favouring the CIT earlier. Consequently, the Company reversed the additional tax provision aggregating to ₹ 64.5 crore for the period between FY17 and FY21.

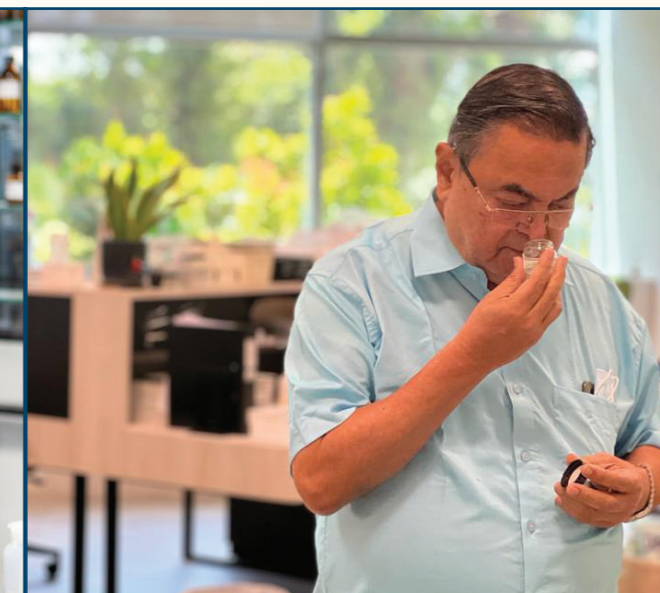
Reported PAT grew by 4% to ₹149.42 crore in FY 2021-22 from ₹ 143.97 crore in FY 2020-21. Excluding one time exceptional item and prior period tax adjustment (gain/loss). The adjusted PAT stood at ₹ 105 crore, drop by 23% YoY.

The Board of Directors of the Company approved the Buyback of 29,00,000 fully paid-up equity shares of ₹ 10 each of the Company at a price of ₹ 210 per equity share through tender offer route. The shares of the Company under Buyback were bought back and the shares were extinguished on 12 January 2022.

## BUSINESS SEGMENT 1 – FRAGRANCE



*Fragrance Laboratory, Creative Flavours and Fragrances Spa, Italy*



*Mr. Ramesh Vaze - Director & Chairman of the Board, an expert in field of perfumery*

Fragrance segment remains the primary revenue contributor with ~91% share in FY 2021-22. The products are used in 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 and Creative Development Centres in India, Singapore and Europe in order to drive innovation and customise products based on specific geographical requirements.

SH Kelkar and Company Limited 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 20 perfumers, 31 scientists and seven state-of-the-art manufacturing facilities in India and abroad.

#### Key Highlights

- ➔ The segment revenue increased by 17.97% YoY on the back of rebound in consumer demand led by discretionary items and new client wins
- ➔ While the domestic core fragrance segment delivered healthy performance by 7.30%, sales in the South East Asia region continued to be affected by the COVID surge and are yet to recover
- ➔ In the European markets, the Company saw improved demand and offtake, which translated to healthy double digit growth from the acquired businesses

- ➔ The Company saw cost pressures on account of global inflation in raw materials and supply chain constraints, which impacted margin performance. In order to efficiently mitigate cost pressures, the Company is collaboratively working across customer segments and has been undertaking price hikes
- ➔ The Company is participating in a global RFP (Request for Proposal) and is working to engage with MNCs on an interactive pitch for commercial tender submission. Such global tender participation is in line with the Company's strategy of more deeply associating with large global MNCs. The Company's strong competence and such participation sets the stage to tap upon further global RFP opportunities, going forward
- ➔ Acquired businesses namely, Creative Flavours and Fragrances Spa, Nova Fragranze Srl, and Holland Aromatics BV, delivered robust performance led by improved demand and volume off-take in the Italian and European markets. The Company acquired Holland Aromatics BV to further strengthen its position in the European market
- ➔ Creative Flavours and Fragrances Spa – CFF's core business grew by 15% CAGR over FY 2019-20 to FY 2021-22. Strong performance in the CFF business was driven by robust volume off-take in the European markets. Sales in Europe grew by 17% on like-to-like basis, post full consolidation of Nova Fragranze SRL and Holland Aromatics BV into Keva

- South East Asia – SEA business was impacted by surge in COVID cases and the business grew by 5%
- 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 it is striving to grow aggressively. New wins included extension of encapsulated fragrances technology to SEA markets
- In the domestic market, the Company managed to meet revenue targets despite the 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, the fine fragrance category gained good traction in the second half of the year. The Company saw good traction in Bangladesh and Sri Lankan markets

#### Outlook

Pandemic has brought in significant consumer behaviour changes like higher acceptability of the e-commerce brands and some of the niche brands. The Consumers prefer either very bulk sale volume packs with value-for-money proposition or a pamper yourself proposition with very good fragrance and a high premium product. This trend is coming in globally including in India where people are willing to spend that extra money on e-commerce or luxury products.

## BUSINESS SEGMENT 2 - FLAVOURS



Flavours Laboratory in Mumbai

The pandemic has hastened the trend. The Company has been tracking these trends and behaviour and observes that pandemic has only enhanced consumer expectations and brought in behavioural changes faster. This bodes well for the growth prospects of the Company. The Company continues to remain focussed on the regional and local brands and specifically looking for niche opportunities which will benefit in the long-term growth.

Raw material availability is still a difficult scenario. However, the Company has maintained good inventory and good planning. In conjunction with the recent price increases, it is expected that gross margins will be maintained.

From the future demand standpoint, the Company is currently witnessing steady wins and enquiries across customers in domestic and international markets. While there are concerns with regard to the macro-environment given the uncertainties relating to the pandemic, internally the Company has several promising growth initiatives in place. Strategic growth levers along with a robust business model should enable the Company to continue to report healthy performance going forward.

A combination of our strategic business initiatives, recent acquisitions, healthy client engagements and participation in global RFPs is expected to result in a positive growth momentum. The Company is committed to delivering strong and sustainable growth in the medium to longer term.

#### Overview

The Company is a leading domestic manufacturer in the flavour segment catering to a wide variety of sectors like beverages, dairy products, confectioneries, bakery products, savoury, pharmaceuticals, nutraceuticals etc. Its products are FSSAI approved and manufactured in advanced modern facilities with a well-equipped R&D lab. The Company focusses on innovation to strengthen its reputation. The skilled team of 6 flavourists is driven to fortify leadership in the segment with in-depth market research and analysis of emerging trends. The health and wellness and naturals segments are currently the high growth categories. In the food science space in the naturals category several innovative flavours have been developed.

#### Scale with agility

The Company's products are US FDA and Halal certified depicting a strong quality management system. Its agile team works with utmost clarity of purpose and process design enabling development of new innovative flavours driving business growth. The Company is able to rapidly respond to requirements of changes in production aided by the use of advanced planning techniques, variable capacities and strong relationships with reputed logistics companies.

#### Products & Applications

The Company has developed a variety of flavours encompassing the categories of natural, nature-identical and artificial in different forms like dry, mix, liquid and encapsulated. The Company boasts of rich experience in the business and caters to different consumer needs with presence in a variety of categories including dairy (shakes and smoothies), beverages (fruit-based and health drinks), confectionery, bakery and pharmaceuticals.

#### Domestic Sales and rest of the world

##### Highlights of FY 2021-22

- Domestic revenue grew by 33.0% and witnessed 22.6% growth in rest of the world
- The segment reported steady performance despite raw material disruptions in the industry
- Although operating constraints due to COVID-induced disruptions impacted growth, client engagements and wins across FMCG space remained stable
- Flavours is seeing robust growth in the organic business
- For a second consecutive year, the Company lost the most part of the summer season in India because of the pandemic. A lot of the ice cream and beverage flavour sales were deferred particularly in the month of May and June. All of these sales are very seasonal with the very big peaks in the summer season

- Raw material cost pressures impacted profitability. However, the impact has been limited on the back of a healthy product mix
- EBITDA margins were impacted due to dilution in gross margin led by raw material inflation and increase in overheads
- The Company continues to invest in development in savoury market
- The Board approved the acquisition of 100% stake of NuTaste Food and Drink Labs Private Limited for a total consideration of ₹ 13.25 crore. The acquisition is expected to help accelerate the momentum of the flavour business and enable expansion into high-potential flavour categories such as syrups, sauces, seasonings, fruit preps and other such premium grade products
- On the Ayush front, the Company is seeing continuous robust growth, and expects good traction in the coming years as naturals is becoming a very big area of focus for the consumer trend

#### Outlook

Flavours business continues to witness robust growth and will accelerate further with the acquisition of NuTaste Food and Drink Labs Private Limited.

Though availability of raw material is a difficult scenario, the Company has maintained adequate inventory through its proper planning. In conjunction with the recent price increases it is expected that gross margins will be moderate in the near term.

For future long-term growth, the Company has in the pipeline certain sort of active molecules called health and active, Ayurvedic extract, etc. Such initiatives will drive growth on a very big quantum although it is in the nascent stage as of now.

#### Quality Management & Knowledge Capital

##### Quality management

##### Overview

- Required certifications including FSSAI, ISO 9001:2008, ISO 14001:2015, FSSC 22000, ISO 22000:2005, ISO 9001, ISO/TS 22002-1:2009, ISO 14001 and ISO 45001 are in place along with USFDA registration for all its facilities. The most rigorous certifications like HACCP for food safety, Integrated Management System for environment and occupational safety have been secured
- Strict adherence to rigorous HSE (Health, Safety and Environment) policy enables safe and healthy work environment
- The Vapi extraction unit has been granted FSSAI licence

- The ISO certifications for Quality, Environment Management System and the OHSAS (Safety) Management System has been awarded to the Mahad facility
- Department of Scientific and Industrial Research (DSIR) acknowledgement for inhouse development of innovative molecules in the R&D centre
- SAP-enabled processes facilitate better efficiency
- State-of-the-art plant is installed at the testing laboratory with modern scientifically advanced machinery including gas chromatographs, density meters, automatic polarimeters, tint meters, flashpoint testers, microbiological testing, etc.
- Strict adherence to world standard quality control practices
- Strict adherence to clean environment policies with effluent treatment plants installed at all facilities in close proximity
- The Vashivali plant is a Zero Liquid Discharge unit

#### Outlook

Strict adherence to compliance and commitment to highest quality standards are at the heart of the Company's policies. Both domestic and international products comply with all requisite regulatory compliances and conform with highest quality standards. The Company is rigorously working to dominate the ever-emerging environment conscious customers preferring greener, safer and more sustainable products.

#### Knowledge capital

- An integral pillar of the Company's growth is its manpower
- Talent acquisition is a healthy mix of campus hiring and lateral hiring resulting in high quality talent pool
- High potential talent is well nourished with management training programmes and groomed to assume senior roles
- Skill development and training of employees is ensured with a well-designed LEAD programme
- PACT – Promise of Accountability, Commitment and Teamwork is an effective morale boosting programme aimed at holistic career growth. Under this, the Company extends differentiated engagement plans, conducive work habitats with short-term and medium-term international exposure and learning opportunities to its existing talent pool
- Career Family Framework – The New Career Family Framework introduced to provide a clear line of sight to employees in terms of career development



**THE COMPANY CONSIDERS THE HEALTH & SAFETY OF ITS EMPLOYEES, BUSINESS PARTNERS AND COMMUNITIES A KEY FOCUS AREA. UNDER ITS EMPLOYEE CARE INITIATIVE, THE COMPANY CONDUCTED VACCINATION DRIVES FOR PROTECTION AGAINST COVID-19 FOR ITS EMPLOYEES, EMPLOYEE DEPENDENTS, SUPPORT STAFF AND BUSINESS PARTNERS. THE FIRST PHASE OF THE DRIVE WAS ORGANISED THROUGH APOLLO HOSPITALS AT THE COMPANY'S OFFICE IN MULUND IN JUNE 2021. OVER 87% OF EMPLOYEES RECEIVED THE FIRST DOSE AND AROUND 22% OF THE EMPLOYEE BASE IS FULLY INOCULATED DUE TO THE SUCCESSFUL VACCINATION DRIVES CARRIED OUT BY THE COMPANY.**

- Ear2Hear - Employee Assistance Programme (EAP) is a step in the direction to enable employees and their family members, to deal with any emotional issues ensuring complete professionalism and confidentiality
- The Company considers the health & safety of its employees, business partners and communities a key focus area. Under its employee care initiative, the Company conducted vaccination drives for protection against COVID-19 for its employees, employee dependents, support staff and business partners. The first phase of the drive was organised through Apollo Hospitals at the Company's office in Mulund in June 2021. Over 87% of employees received the first dose and around 22% of the employee base is fully inoculated due to the successful vaccination drives carried out by the Company.

#### Outlook

With "people first" attitude, the Company is equipped with a healthy talent pool. There is a strong focus on enhancing productivity by encouraging performance culture. The Company boasts of a robust talent pipeline suited for internal progression. The focus is to nurture talent with an integrated knowledge base of both flavours and fragrances.

#### Risk Identification & Mitigation

**Global risk:** Widespread global presence increases susceptibility to macro-economic developments in any/all of these countries impacting global trade.

**Mitigation:** An expert team is in place to closely monitor macro-economic developments in all countries of operation, and formulate continuity plans in response to any event likely to impact business.

**Redundancy risk:** Rapidly and constantly evolving consumer demands require the Company to keep pace with appropriate innovations and keep competition at bay.

**Mitigation:** The Company is committed to innovation and invests substantially towards R&D budget and robust manpower. Its team of professional perfumers and flavourists is constantly moving to stay ahead of any emerging trend.

**Supply risk:** Since the Company uses over 1,500 raw materials, it faces the risk of inadequate supply or unavailability of one or more raw materials causing unwarranted production delays.

**Mitigation:** The Company has established robust and long-lasting supplier relationships owing to its expanded presence in

the fragrance and flavours segment. With long-term contracts and a strong inventory management system in place, the Company ensures adequate inventory is maintained at all times.

**Regulatory risk:** The fragrance and flavours segments being subject to several regulatory compliances, it is imperative for the Company to ensure strict adherence to all applicable rules and statutes.

**Mitigation:** Strong internal financial control systems and online statutory compliance management system, combined with a dedicated team of internal auditors and external auditors ensure no rule or regulation is flouted whatsoever. To further strengthen regulatory risk mitigation, the Company's Audit Committee keeps a close eye on the forcefulness of various systems.

**Foreign currency risk:** Extended global presence in 50+ countries, increases risk to business in the event of sharp cross-currency fluctuation.

**Mitigation:** Extensive use of suitable and effective hedging techniques reduce vulnerability to cross currency volatility to a large extent.

**Receivables risk:** The nature of the business requires the Company to enter into long duration export receivable cycles, thereby increasing risk of bad debts.

**Mitigation:** The Company strives to reduce defaults through robust critical screening of trade partners and strict adherence to defined processes. Appropriate credit insurance further enables to mitigate receivables risk.



Fragrance Laboratory in Singapore

**Revenue concentration risk:** Substantial dependence for revenue inflow from a single large client or a few large clients poses risk to business continuity in the event of poor performance of such clientele.

**Mitigation:** To reduce revenue dependency on a single or a few large clients, the Company has established ongoing partnerships with several small and medium sized clients. This healthy mix of over 4,100 clients insulates the Company from being impacted by a particular partners' performance.

**Business sustainability risk:** A sustainable business requires a healthy team of professionals in addition to promoters to get a broader perspective and embark the journey of uninhibited growth.

**Mitigation:** Crucial management roles in the Company are assigned to independent specialists from downstream industries. Internal career progression, appropriate training and skill development initiatives and employee retention being the key focus areas of HR ensure smooth progression. This not only keeps employee involvement and morale high but also helps to de-risk concentration of power.

#### Significant Changes in Key Financial Ratios

Sr. No.	Particulars	2022	2021	Reason for Change
1	EBITDA Margin %	14.7	19.3	Global Inflation in raw material and supply chain constraints impacted margin
2	Net Profit Margin %	9.4	9.8	Gross Margin impact, set off by one-time tax benefit
3	Interest Coverage Ratio (times)	9.9	11.6	Impact of lower Gross Margins
4	Current Ratio	2.8	2.7	No Significant Change
5	Debt Equity Ratio	0.5	0.4	Debt increased on account of acquisitions made during the year
6	Return on Net Worth	15.6	17.9	Impacted by lower profitability
7	Debtors Turnover Ratio	3.38	3.51	No Significant Change
8	Inventory Turnover Ratio	2.81	3.06	Increase in inventory to support assured services to customers

**Competition risk:** The widespread applications and lucrative growth prospects of the industry attracts high competition both domestically and internationally.

**Mitigation:** The Company manages to keep competition under control led by its strong focus on innovation, high compliance standards, best-in-class products and deep relationships with all stakeholders – suppliers, customers, employees and investors.

**Concentration risk:** In case of unforeseen challenges causing disruption in any of the selected downstream sectors the Company is dependent on, business continuity may be at risk.

**Mitigation:** The Company constantly endeavours to increase its offering to new sectors through both its fragrance and flavours divisions. The Company's products already find application in a wide variety of sectors including personal care, air care, skin & hair care, beverages and fine fragrances.

## More than Corporate Social Responsibility – A Moral Duty

As a responsible conscientious corporate citizen, Keva recognises its role and responsibility to deliver superior yet sustainable value to its customers, business partners, employees and communities. As a leading player in the Fragrance and Flavour industry, Keva aims to make a difference not only through its products and services, but also via sustainability and CSR initiatives.

During the year under review, Keva committed to contribute positively towards the social and economic development of communities as a whole. Child education remains the focus area for Keva in uplifting the potential of underprivileged children. The aim is to give them an opportunity for higher education thereby making them self-reliant and confident in securing a bright future.

The Company collaborated with Udaan India Foundation in its marquee project - Centre for Change, a one-stop solution for skilling, mentoring and providing higher education to the youth through scholarships.

Keva is committed to empowering, nurturing and enabling students from primary school who have the passion and will to excel at academics. The Company is providing opportunities for these students to pursue their higher studies in secondary school. To this end, Keva has contributed equipment for the Computer Lab in Pria School, located in the rural area of Khalapur. This will help students of the school become technologically savvy and creatively independent.

Keva also works on basic education through Balwadis at twelve centres in rural areas of Karjat and Murbad in collaboration with Shabri Sevati Samiti. The objective is to provide pre-primary education to children from the age group of three to six, from rural and vanavasi areas of Murbad.

Under the Enterprise Social Commitment plan, Keva also provided sustainable, technologically advanced and maintenance free solar street lights in the villages of Pandor, Salvav and Koparli. So far, over 30 solar street lights have been installed in these areas since 2019.



The Company supports Environment Sustainability; through greenbelt development initiatives to develop and preserve the rich flora and fauna near its industrial area.

Keva is actively involved in responding to and combating natural disasters and the pandemic in a timely manner, engaging with communities at large. In collaboration with Kai Kakasaheb Chitale Smruti Kendra – Jankalyan Blood Bank, Mahad, the Company provided resourceful equipment for Blood Centres, which were affected due to the flood in Mahad, Raigad. During these unprecedented times of the pandemic, Keva has been working with the government and customers to deal effectively with the situation. Keva collaborated with various NGOs and hospitals to provide COVID-vaccination doses, oxygen concentrators and ambulances, in many rural areas. Financial aid in the form of a contribution to the PM National Relief Fund was also provided. The Company continues to work towards the upliftment of society and the lives of people in and around its plants.