

## **Dates for upcoming FOFs :**

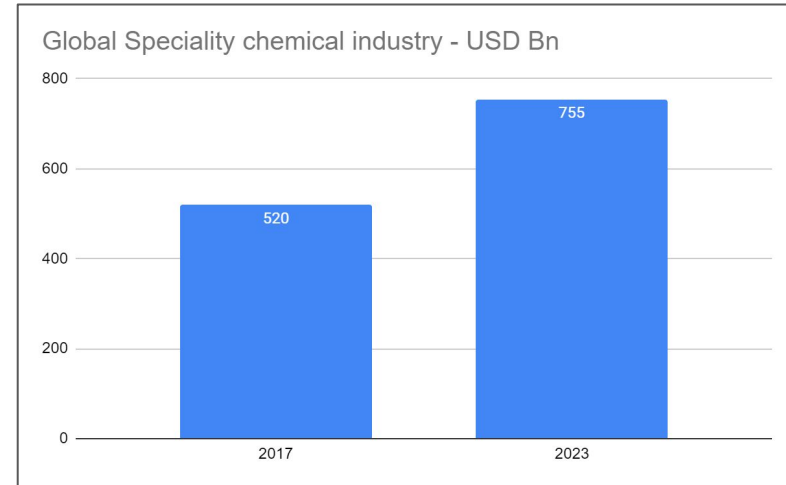
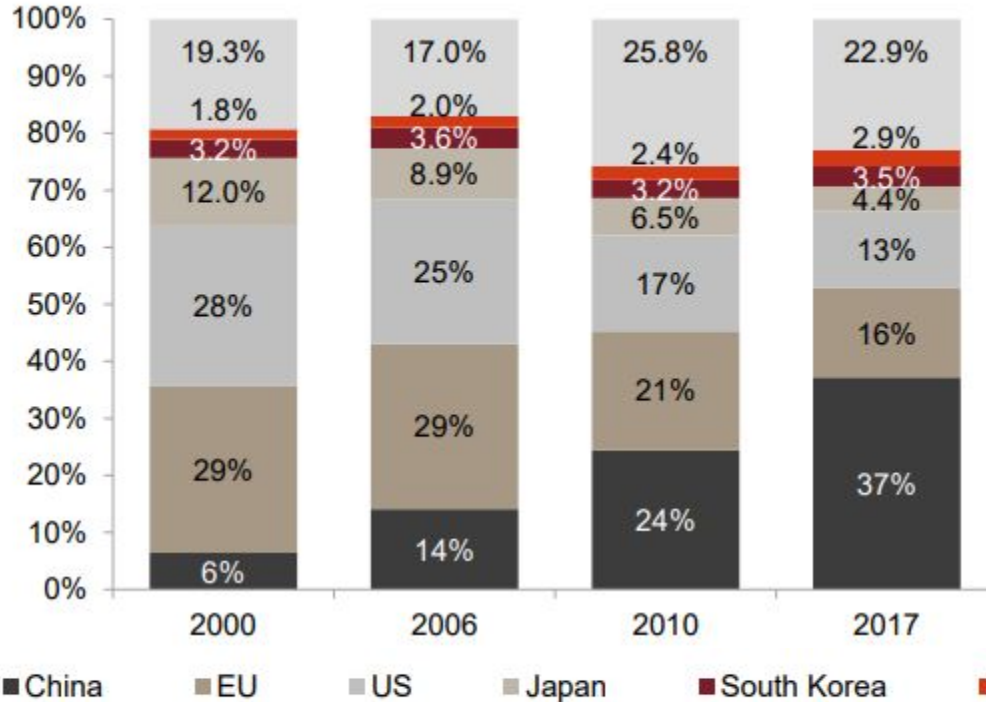
1. 10th Oct'24
2. 12th Nov'24
3. 11th Dec'24



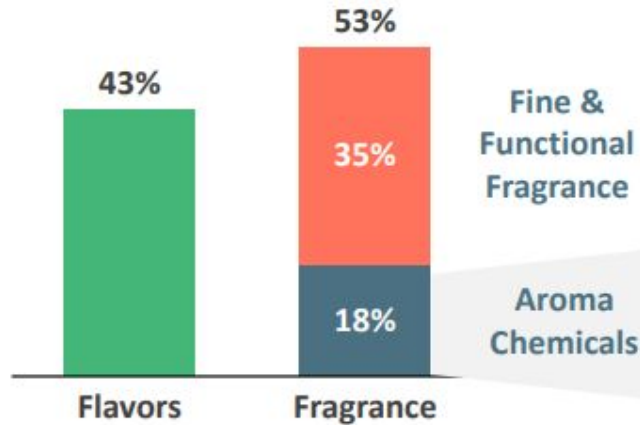
# **Flavors & Fragrance Industry**

# Global Chemical Industry

Percentage share in global chemical sales



Global Flavors & Fragrance (F&F)  
Market Size is about USD 30.4 Billion



## Flavor

### Application



Dairy



Confectionery/Bakery



Beverages



Savory/Snacks



Others

## Fragrance

### Application



Fine Fragrances



Cosmetics & Toiletries



Soaps & Detergents



Household Cleaners & Air Freshners

# Segments - Flavors

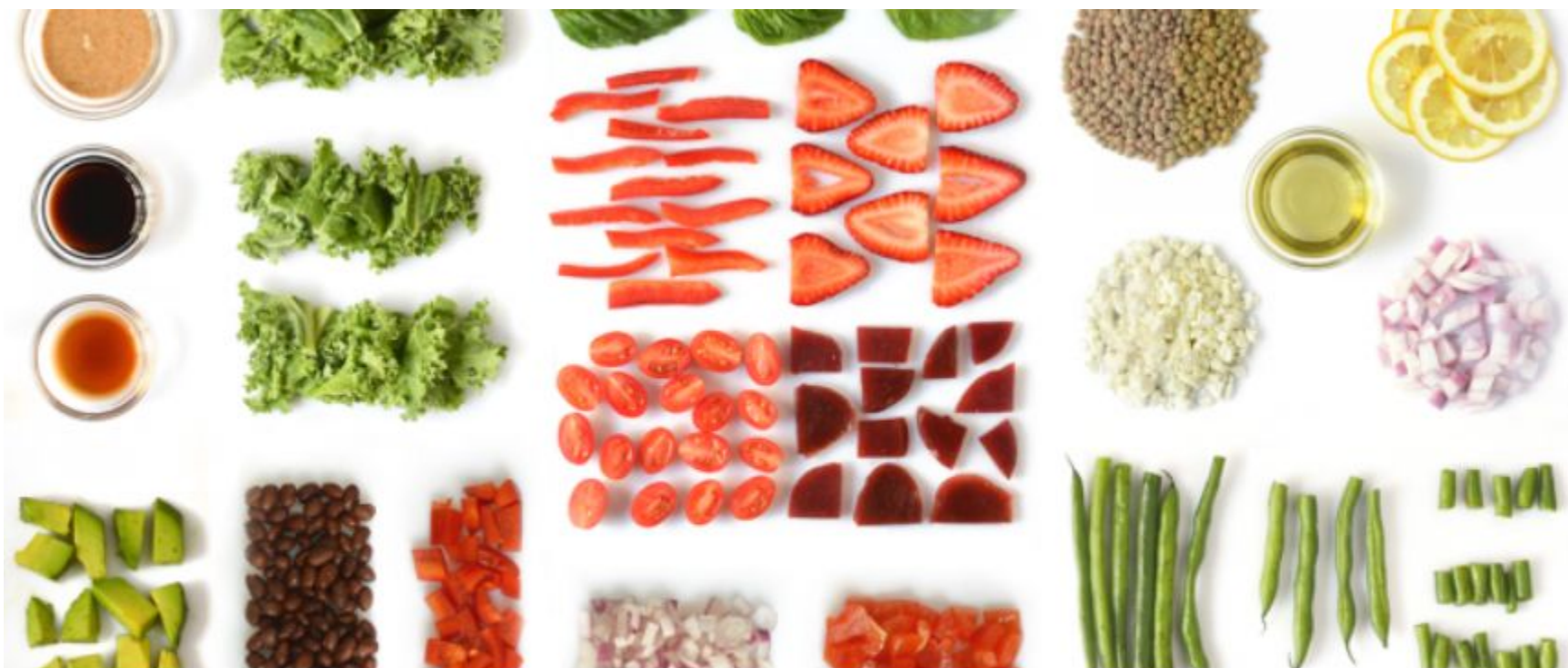
Flavors are segmented on the basis of the industry they serve.

- **Savory flavors:** Used in snacks, cooking sauces and Namkeens. Demand for savory flavors is influenced by consumer preference for packaged food and ready to eat meals
- **Fruity flavors:** Used in fruit-flavored drinks such as beverages and fruit juices. The demand is driven by F&B industry
- **Cheese and other dairy flavors:** These are used by flavored milk, yoghurt, cheese and other dairy products. The demand is driven by health consciousness of customers



## THE FLAVOR INDUSTRY: FROM ANCIENT TIMES TO TODAY

Source : FEMA



COMPLEXITIES OF FLAVORS AND  
CREATION





SUPERTASTER, MEDIUM-TASTER,  
NON-TASTER: WHICH ARE YOU?



**Why suffering from Common Cold affects**

**Flavor**

# Fragrance

Fragrance of a perfume is described by the notes that it is made up of.

1) **Head note:** Lightest note recognised immediately upon application.

Have a light molecular structure and are the first to fade away.

Includes citrus (lemon, orange), light fruits (grapefruit, berries) and herbs (lavender)

2) **Heart note:** Sensed once the top note evaporates.

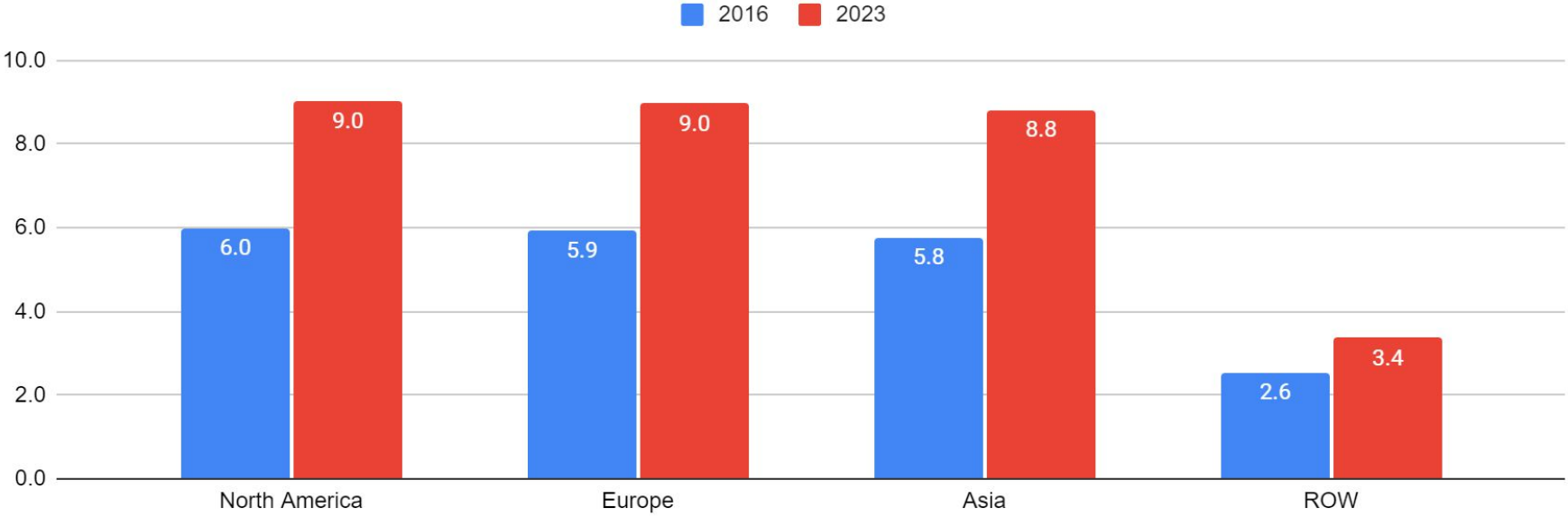
Lasts longer than top note and has a strong influence on the base note.

Includes rose, lemongrass, coriander and jasmine

3) **Base note:** Final fragrance that appears and leaves a lasting impression.

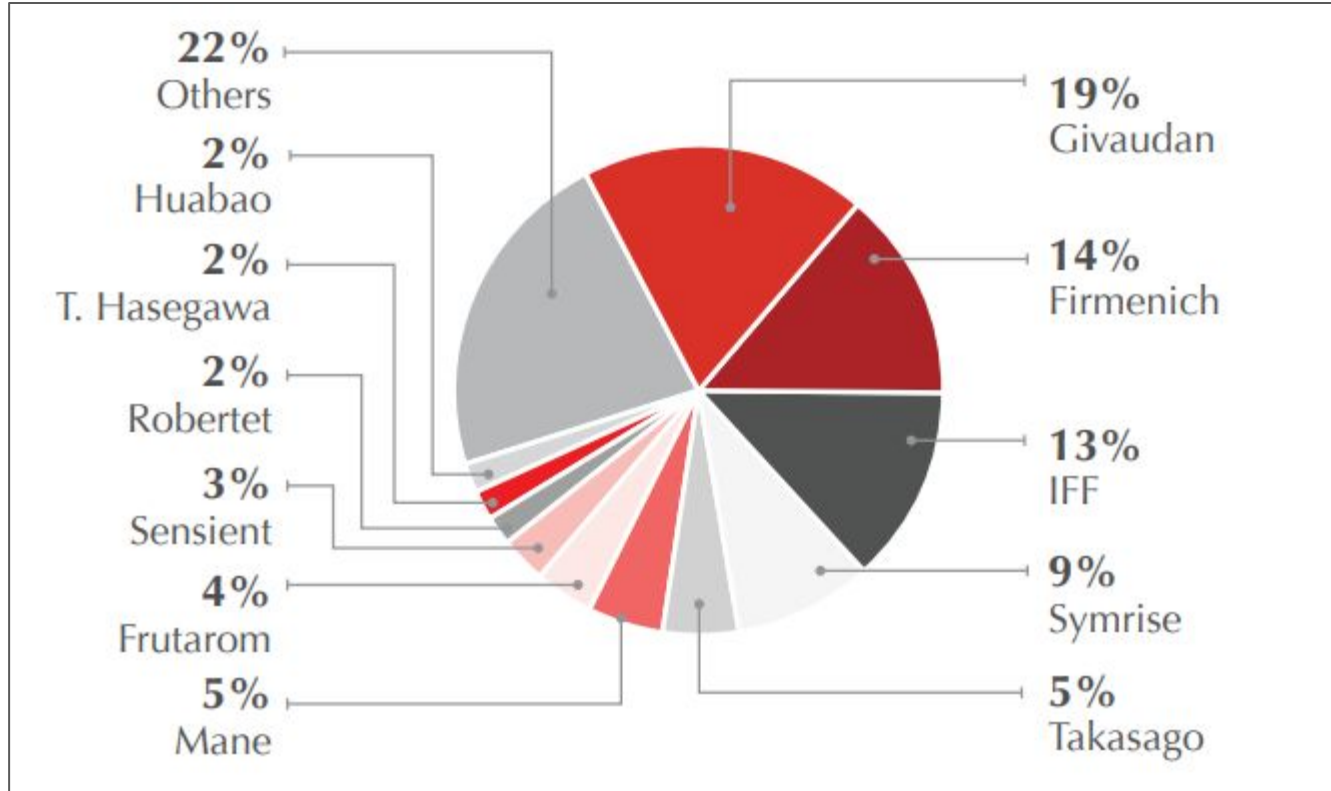
Base notes include sandalwood, vanilla, musk etc

# Market size by Region (Bn USD)

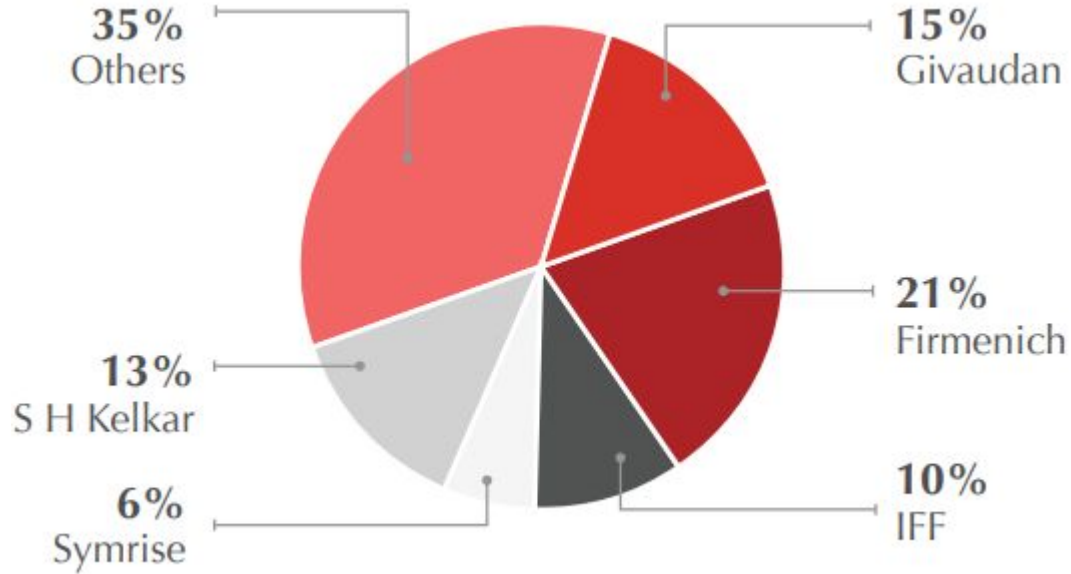


**Global F&F Market Size (USD bn)**

# Market Share of Major F&F Players - Global



# Market Share of Major F&F Players - India



Source : Industry Reports

# Value Chain of F&F

<b><u>Segments</u></b>			
<b>Raw Material Suppliers</b>	<b>Base Ingredient Manufacturers</b>	<b>Formulators</b>	<b>End Consumer Industry</b>
<b><u>Characteristics</u></b>			
Provide natural raw material or petrochemicals for further processing	Offer standardized products with minimum differentiation	Offers Value added products focused on specific end-use applications	B2C players offering final products to end consumers
	Have limited pricing power over its customers	Products drive the key functionality to the end consumers	Specialize in final formulations combining fine ingredients and excipients
		Specialize in IP protected compositions with complex specifications	Strong marketing & branding; distribution network and reach is a key success factor
<b><u>Products</u></b>			
<b><u>Synthetic</u></b> <ul style="list-style-type: none"> <li>• Petrochemicals</li> <li>• Pine derivatives</li> </ul>	<b><u>Synthetic</u></b> <ul style="list-style-type: none"> <li>• Aroma chemicals</li> <li>• Synthetic ingredients for nutraceuticals</li> </ul>	<ul style="list-style-type: none"> <li>• Fragrance blends</li> <li>• Cosmetic actives</li> <li>• Flavours &amp; colours</li> </ul>	<ul style="list-style-type: none"> <li>• Perfumes</li> <li>• FMCG products</li> <li>• Processed Foods/Beverage</li> <li>• Dairy products</li> </ul>
<b><u>Natural</u></b> <ul style="list-style-type: none"> <li>• Herbs and spices</li> <li>• Mint</li> <li>• Other natural products</li> </ul>	<b><u>Natural</u></b> <ul style="list-style-type: none"> <li>• Spice extracts</li> <li>• Oleoresins</li> </ul>	IP driven ingredients	

# Industry Structure





# F&F Industry – A niche

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**Megatrends support organic growth:**

*...health & wellness ... middle class boom & urbanization ... naturalness & sustainability ... traceability ... vegetarian food ...*

**Industry tied to population growth and disposable income; little dependence on cyclical, economic trends.**

**High market concentration – top 4 players with ~47%.**

**Global footprint key to meet local tastes & preferences.**

**‘Sweet spot’ in value chain: only a small fraction of product costs (1-5%), but a key buying criteria.**

**Sustainability & supply chain management increasingly important.**

**High barriers to entry e.g. core list system and increasing regulatory pressure.**

**Tailor-made products with generally small volumes and decreasing product life cycles.**

**Handling complexity for our clients. Managing ~10,000 raw materials for ~30,000 products.**

**Short-term visibility.**

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# Order flow in the industry

FMCG Company Plans a Launch – Say a Shampoo / Perfume

↓  
Fragrance Brief

is made to Fragrance Houses like SH Kelkar or Privi

↓  
Initiates process to develop the required fragrance

↓  
Typically 10 to 100 versions are made to develop one required fragrance

↓  
All Versions are sent to Fragrance House's Internal Specialists to smell and screen

↓  
Specialists shortlist the best versions and sent to FMCG company for evaluation

↓  
FMCG company's internal specialists shortlist one sample of Fragrance for its product launch

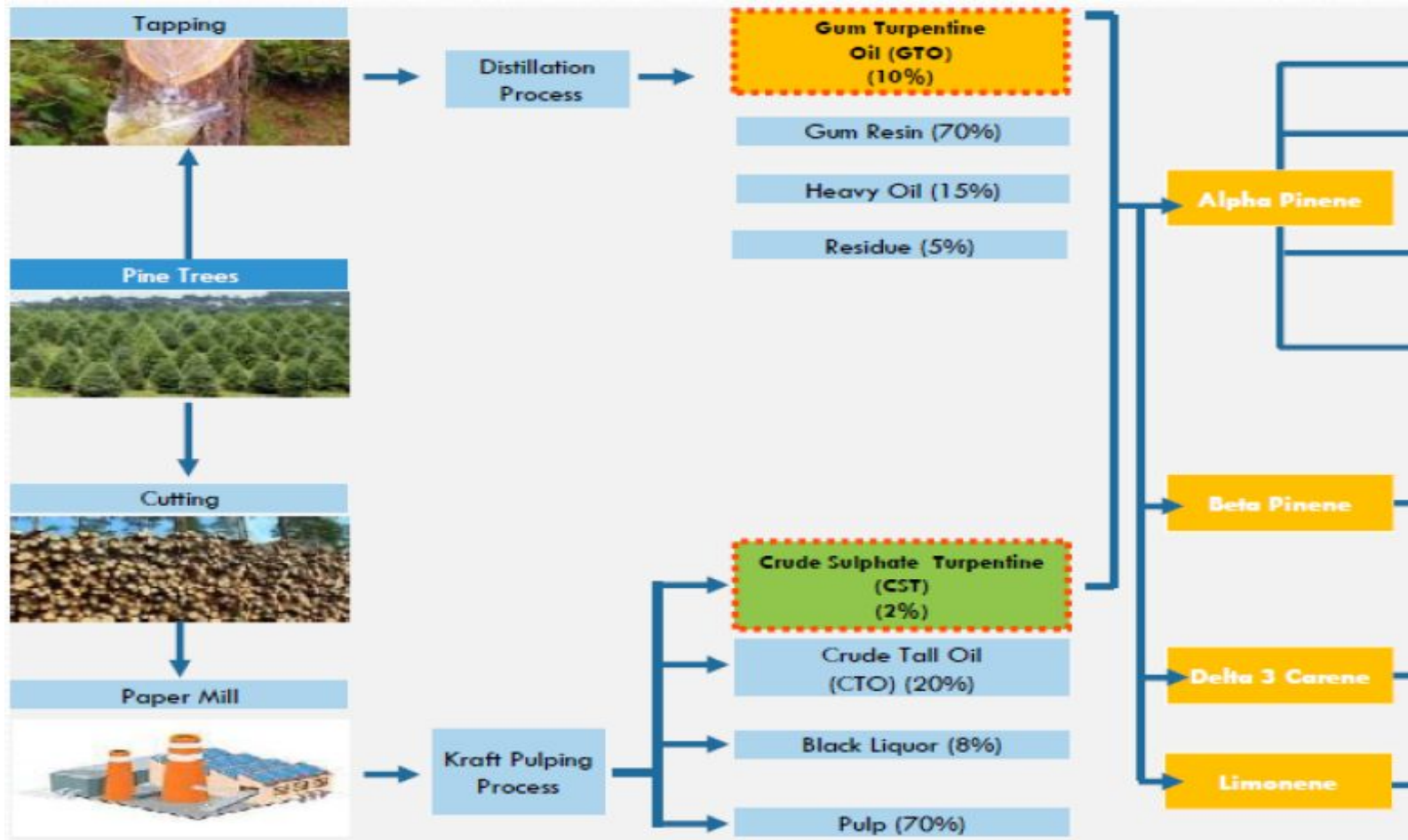
↓  
Till FMCG Product remains in production.

the supplier & ingredients of the fragrance are never changed in its entire lifecycle.

# Consolidation in industry

- High Switching cost
- High R&D expenditure
- Maintaining lot of SKU's
- Consistent supply chain
- Regulatory approvals

# Manufacturing Process



# Global Peers



Givaudan



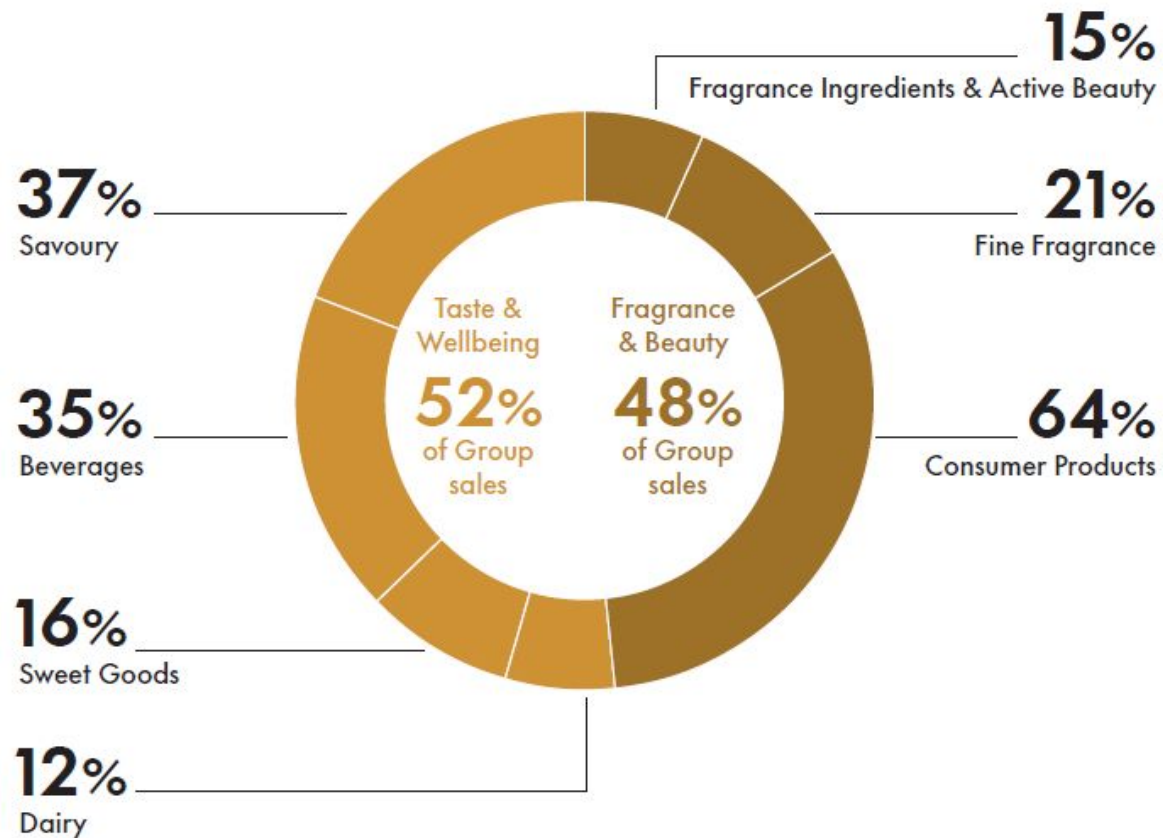
dsm-firmenich ●●●

Headquarters	Switzerland	USA	Germany	Switzerland
Market Cap	CHF42Bn	USD27Bn	EUR17Bn	EUR32Bn
Sales Growth	5-7%	3-5%	5-7%	3-5%
EBITDA Margin	20-22%	18-20%	18-20%	13-15%
FCF/Sales	13-15%	7-10%	10-12%	10-12%
Div Yield	2%	1-2%	1-2%	1-2%
Net Debt / Ebitda	2-3x	3-5x	2-3x	2-3x
ROE	20-22%	12-15%	15-18%	12-15%
P/E	35x	23x	42x	41x

# Givaudan

- Largest F&F Company globally, with its heritage stretching back over 250 years
- Swiss Multinational manufacturer of Flavors, Fragrances (F&F), and Cosmetic ingredients
- Company has a long history of innovating scents and tastes.
- From drink to daily meal; perfumes to cosmetics, its creations reach millions of consumers
- In 2023, Company employed 16,000 people worldwide and achieved sales of CHF 8.2 billion.
- ~12,000 different raw materials sourced from 120 countries from >17,000 suppliers
- 5,000 active patents worldwide
- > 20% of sales resulting from innovations developed over the last 5 years

# Sales from two business activities



## India is key focus market for Givaudan

### Latin America

Focus on leveraging our latest investments in the region and capture the growing customers base

### Middle East & Africa

Keep investing in key countries

### India

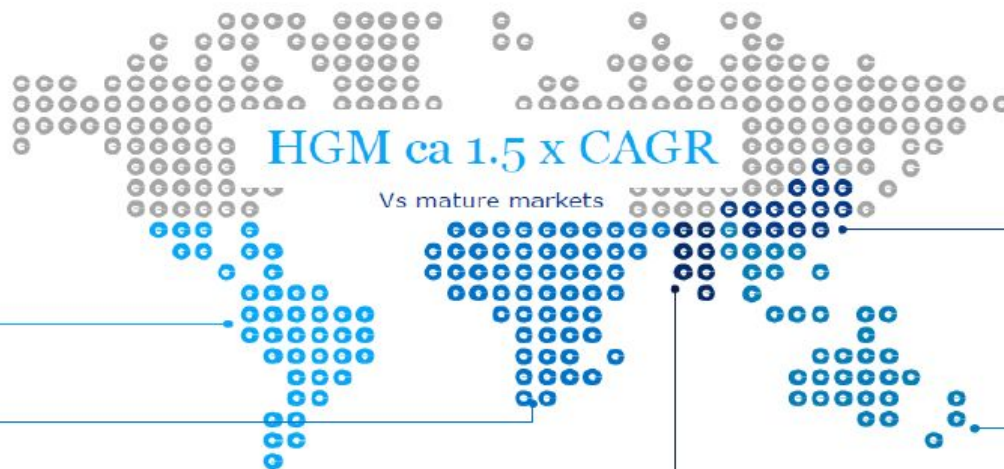
Keep investing to sustain current growth rate

### China

Leverage the drom acquisition

### South-East Asia

Accelerate SEA growth by leveraging acquisitions of Fragrance Oils / Expressions Parfumées



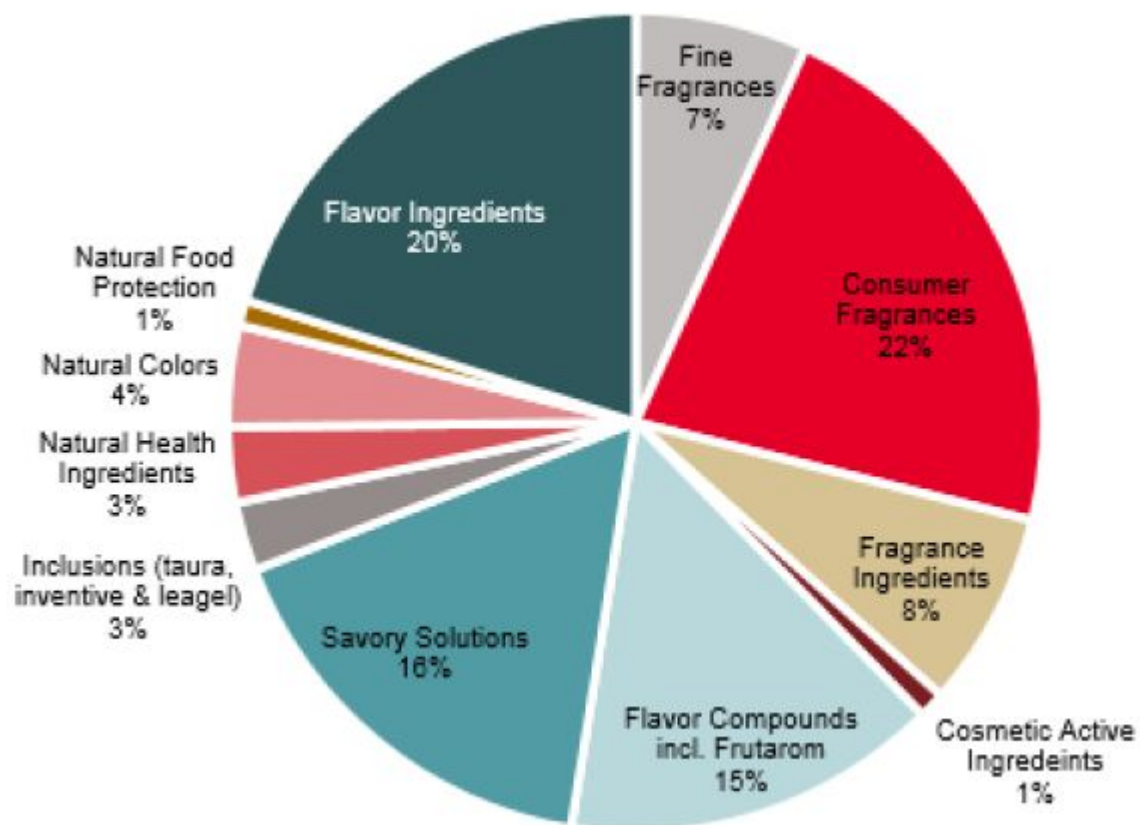


# International Flavors & Fragrances (IFF)

- IFF ranks number two globally
- >70% of sales targeting non-discretionary food and cosmetics end markets
- The risk of over-exposure to a single client or segment is low.
- IFF operates in 3 verticals, Scent, Taste and Nutrition & Ingredients, split into 11 business lines.
- Scent accounts for 36% of group sales and 42% of EBIT - targets the beauty industry.
- Taste generates 34% of sales and 49% of EBIT - targets food & beverage producers.
- Nutrition & Ingredients generates 30% of group sales and includes most of Frutarom businesses.
- 25 largest customers accounted for approximately 32% of sales.

## IFF: product categories (% of sales)

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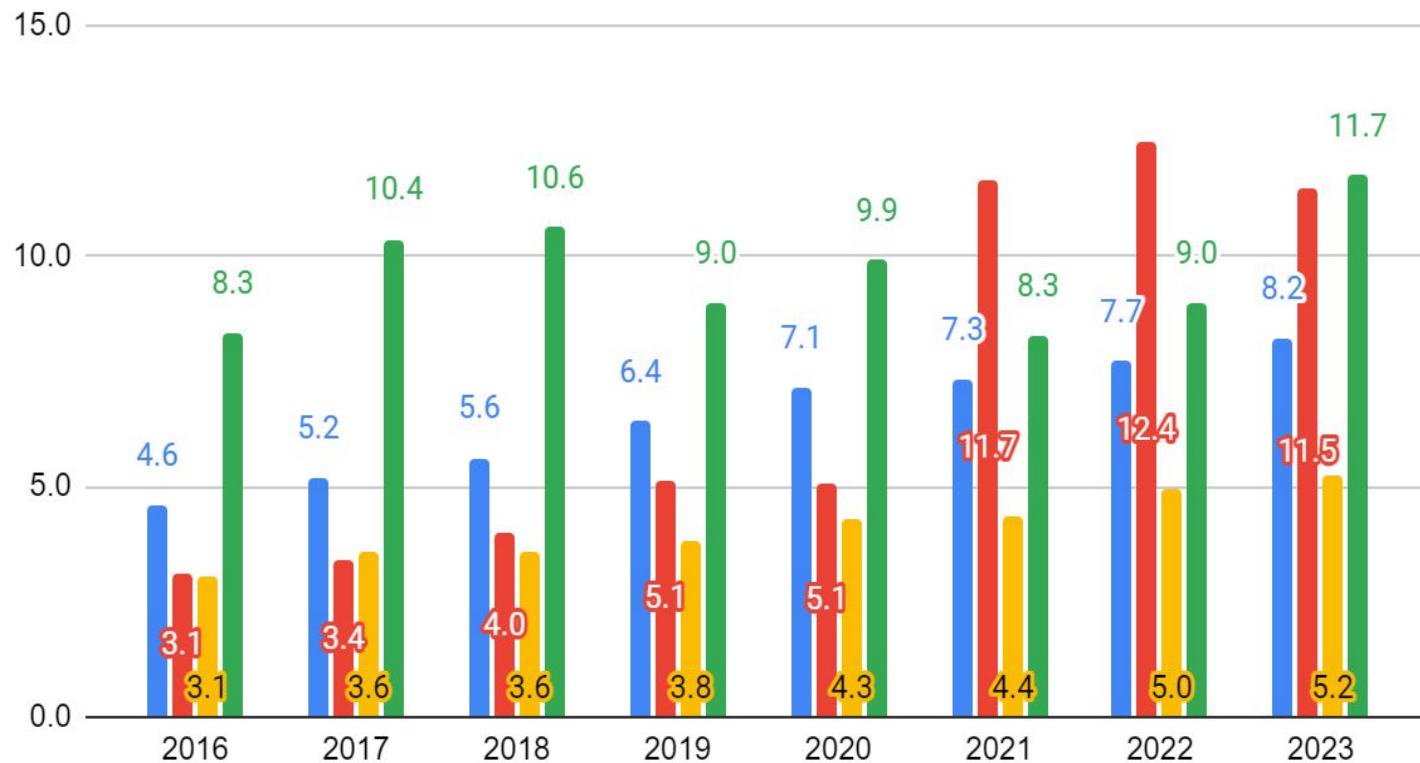


# Regulations for Aroma Chemicals

- Aroma chemicals are regulated by the Food & Drug Administration (FDA), Environmental Protection Agency (EPA) and Occupational Safety and Health Administration (OSHA).
- Fragrance products which are not applied on the body (laundry detergents, room fresheners, fabric softeners) are regulated by Consumer Product Safety Commission.
- Europe's REACH monitors the use of chemicals & their potential impact on human health and environment
- Turkey : KKDİK (acronym in Turkish for REACH)
- Barriers to entry
- Significantly increase operating costs for smaller players and also delay product innovation.

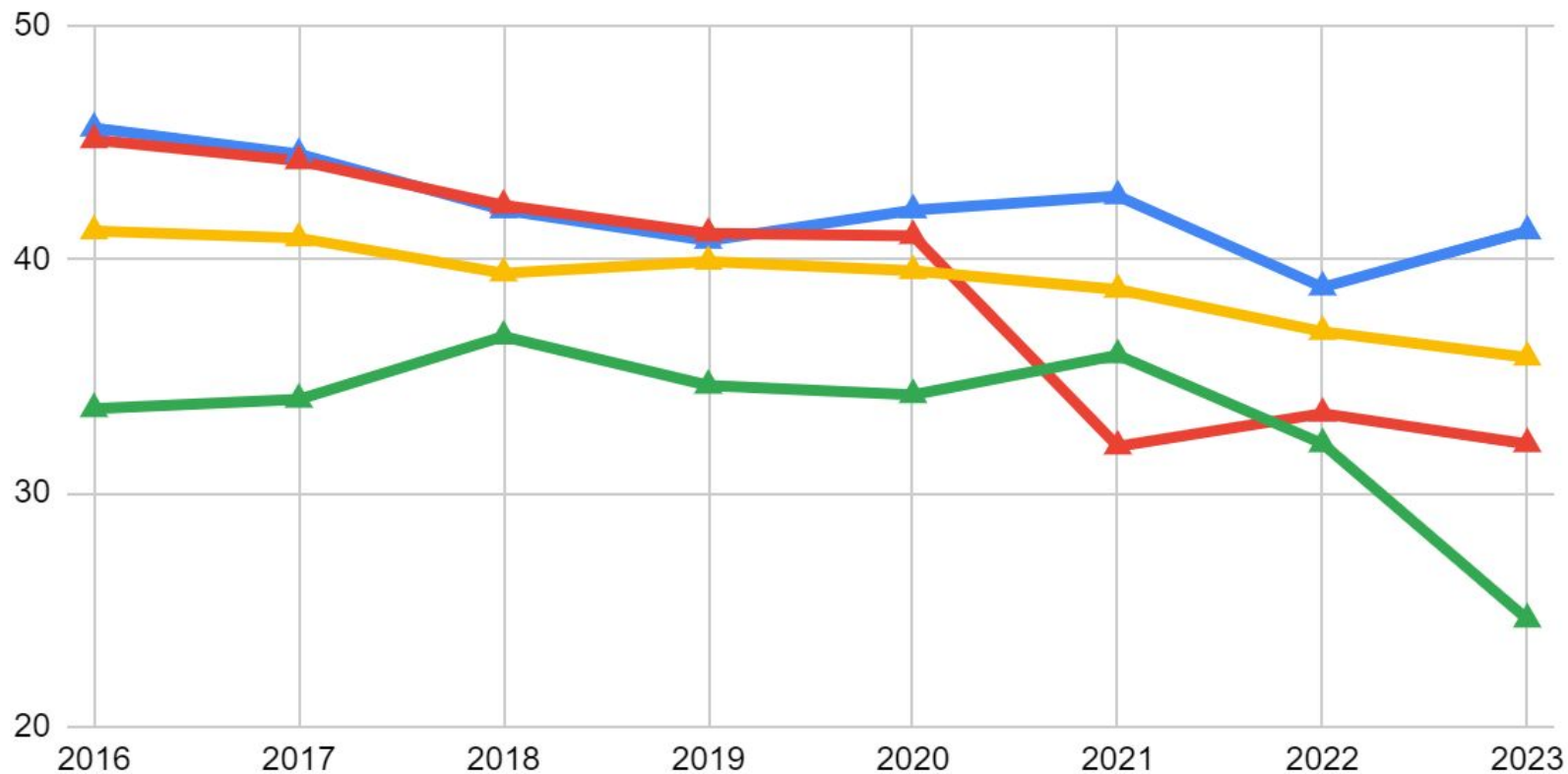
# Sales Trend (USD Bn)

■ Givaudan ■ IFF ■ Symrise ■ DSM-Firmenich



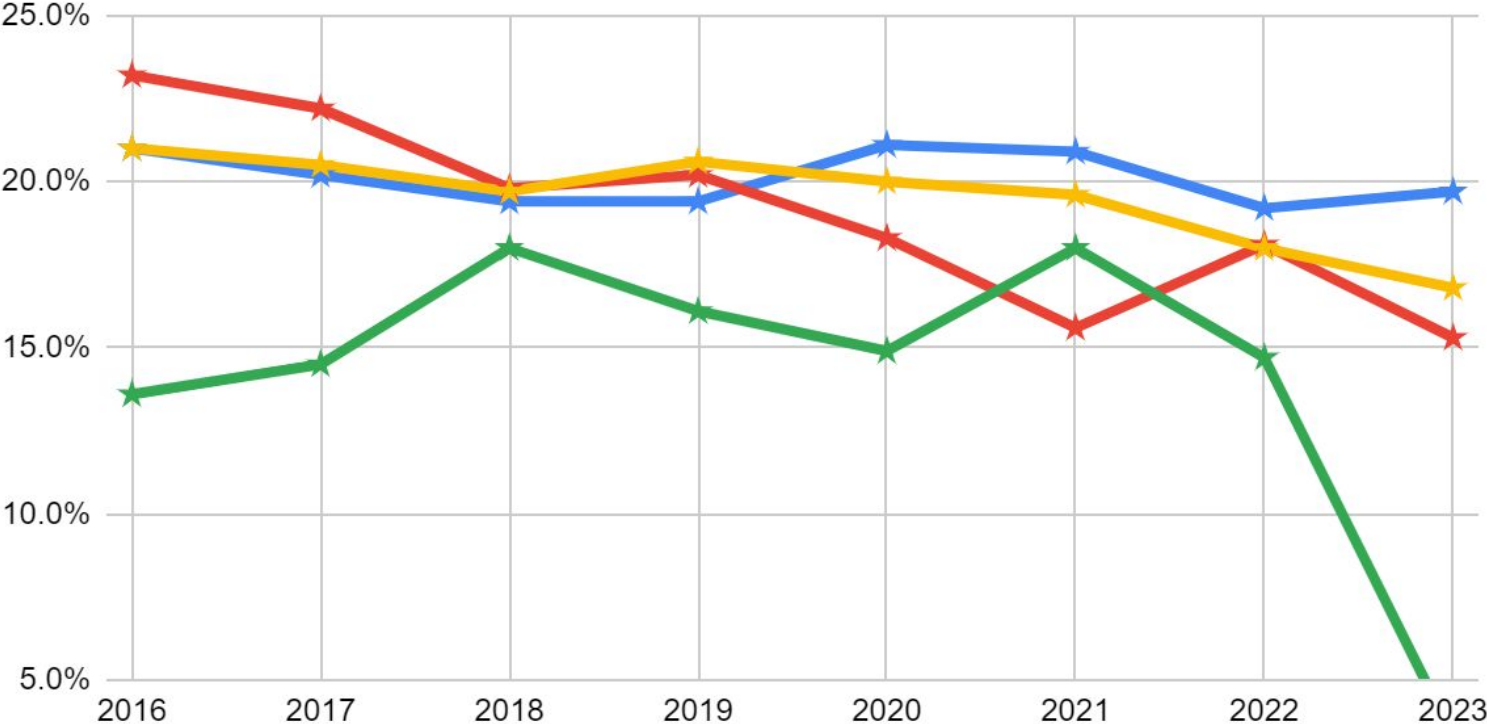
# Gross Margin Trend (%)

▲ Givaudan ▲ IFF ▲ Symrise ▲ DSM-Firmenich



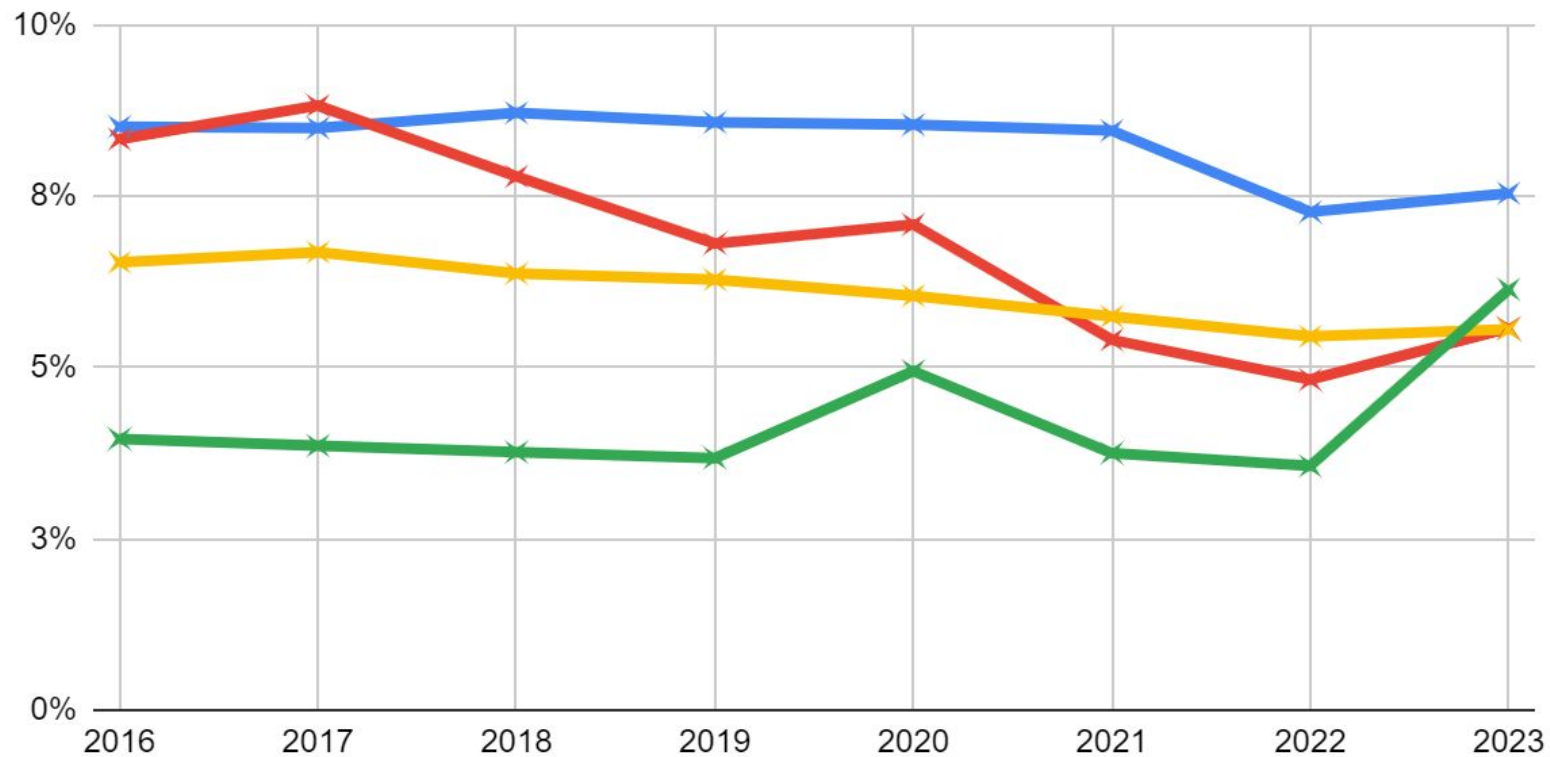
# EBITDA Margin Trend (%)

★ Givaudan   ★ IFF   ★ Symrise   ★ DSM-Firmenich



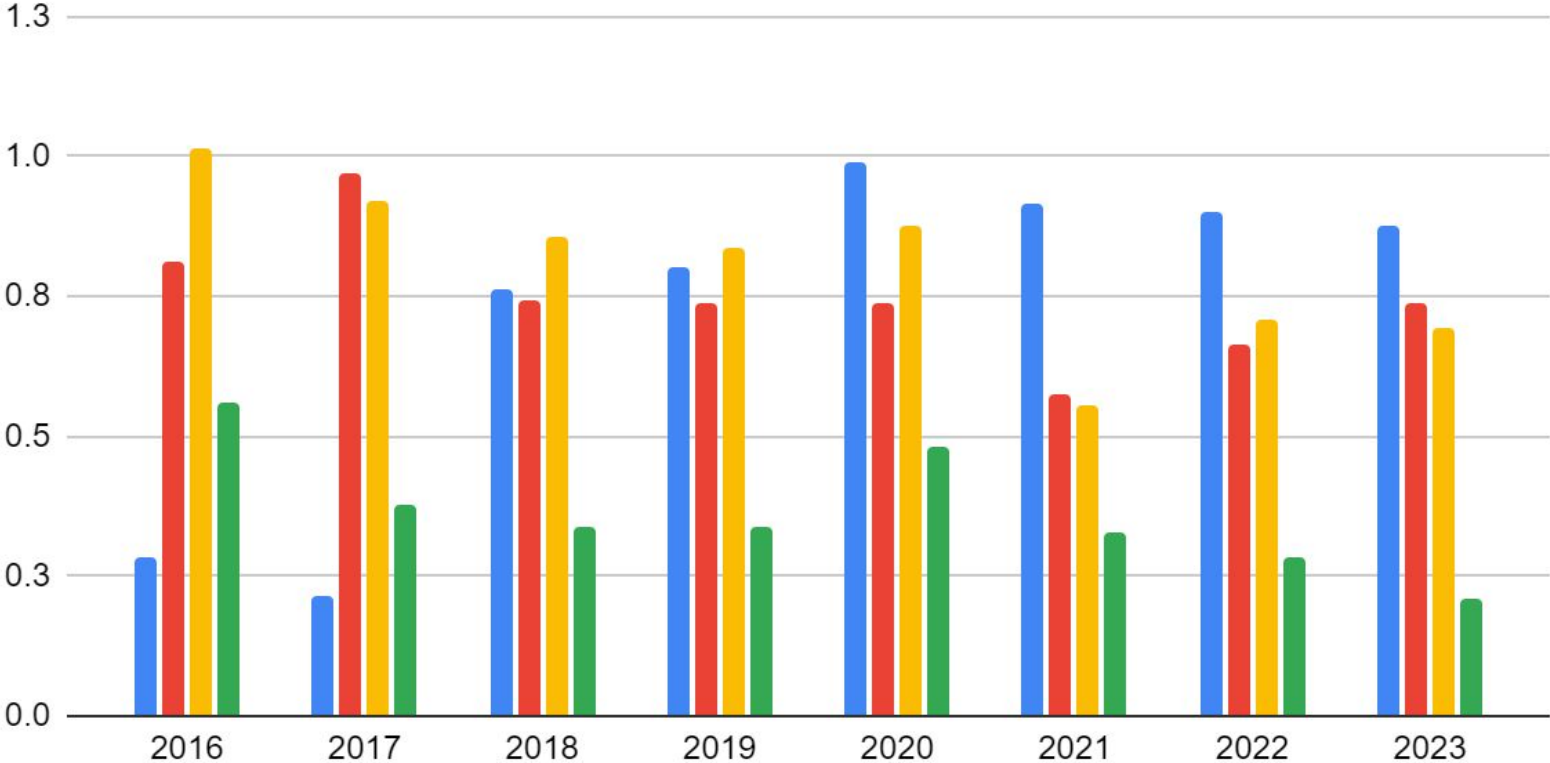
# R&D Expenses (% of Sales)

× Givaudan × IFF × Symrise × DSM-Firmenich



# Net Debt / Equity Ratio

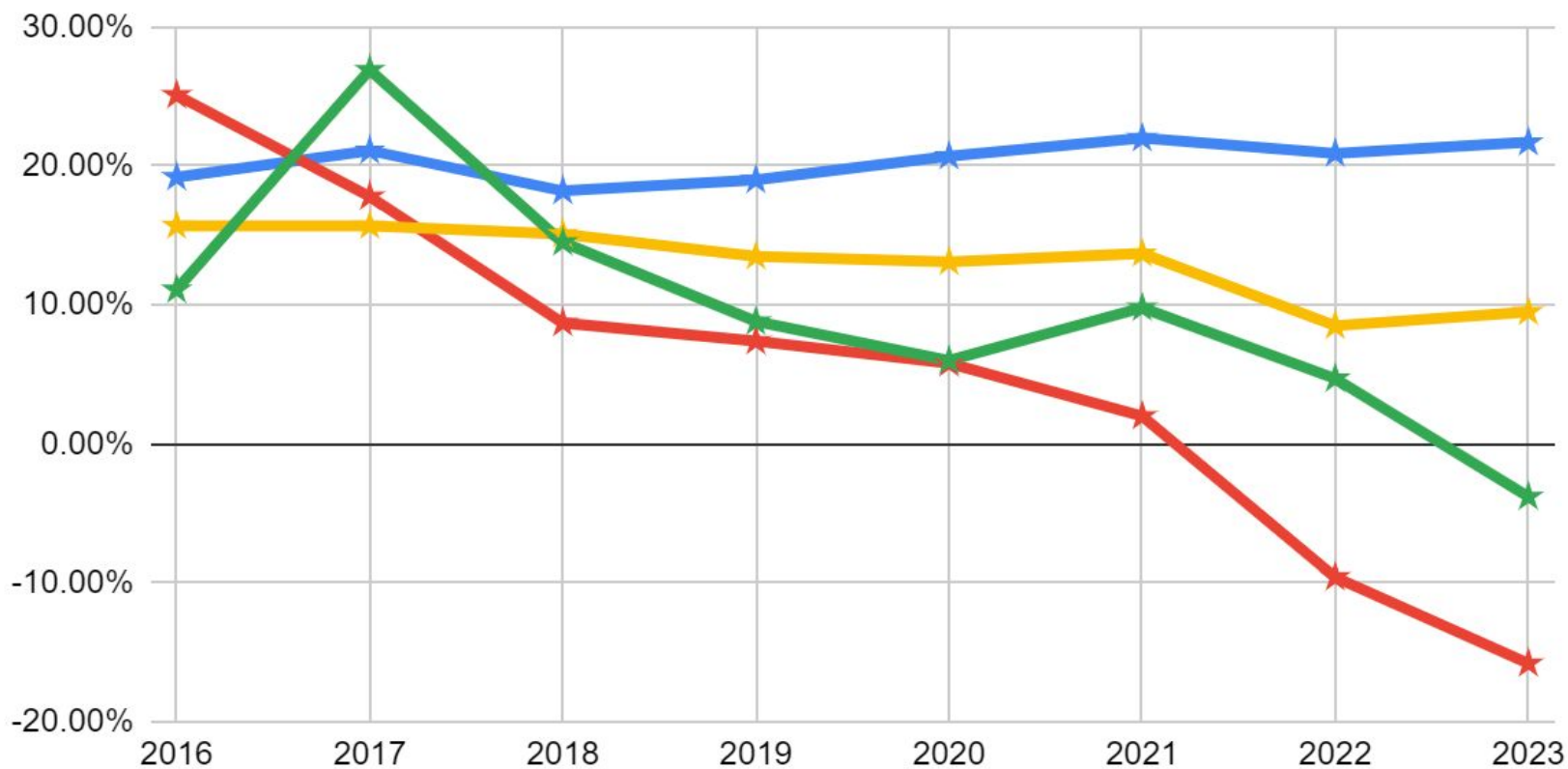
Givaudan IFF Symrise DSM-Firmenich





# Return On Equity (%)

★ Givaudan   ★ IFF   ★ Symrise   ★ DSM-Firmenich



# Inorganic Growth in the sector

- M&A activity has significantly increased in the sector.
- Smaller players with strong competence in a single product and limited geographic presence are getting acquired by larger players giving access to a broader market and stronger distribution capabilities.
- Considering the overlap between the F&F and nutraceutical ingredients value chain, some of these acquisitions have allowed companies to gain access to specific customers and complementary products.

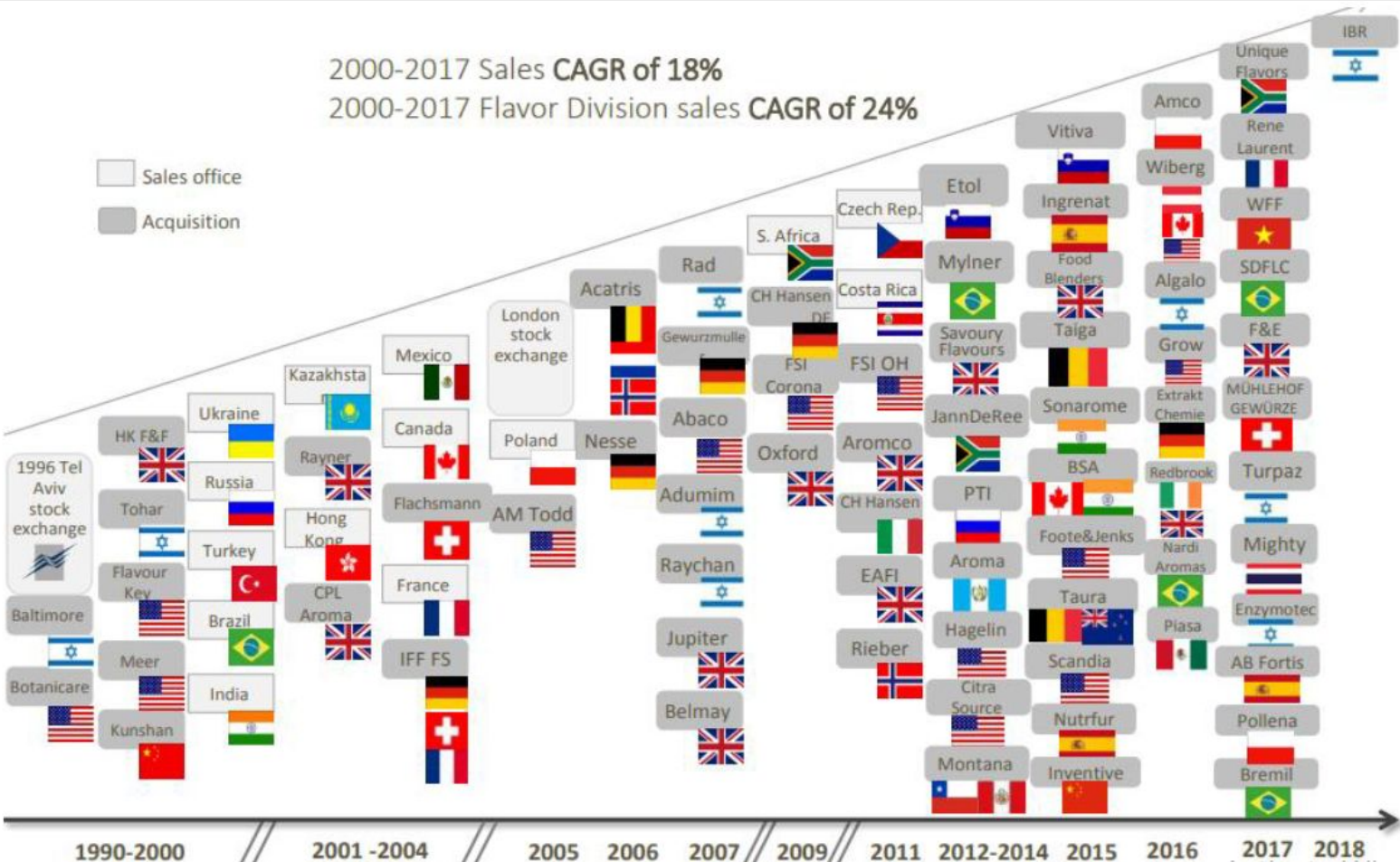
## Domestic M&A Transactions in India

Date	Target	Sector	Acquirer	Deal Value (USD mn)
Jan '17	Indfrag	Nutraceutical Ingredients	Omniactive	45
Nov '16	Gujarat Flavours	F&F	S H Kelkar	2
Apr '16	High-Tech Technologies	F&F	S H Kelkar	4
Feb '13	Saiba Industries	Plant extracts	S H Kelkar	2

## Inbound Transactions in India

Date	Target	Sector	Acquirer	Deal Value (USD mn)
Aug '16	Privi Organics (51%)	Aroma Chemicals	Fairfax India	55
May '15	Sonarome (60%)	Flavours	Frutarom	17
Nov '14	Kancor Ingredients	Natural Extracts	V. Mane Fils	21
Mar '12	Valentine	Natural Extracts	Naturex SA	7

# Frutarom went on an aggressive acquisition spree through 2000-17



# 38 Companies acquired since 2010



Frutarom is global company specializing in flavours and fine ingredients



~20% of revenue from  
Fine Ingredients (includes nutra ing.)

**38** Companies acquired  
since 2010

Company Acquired							
<b>Business</b>	Botanical extracts and natural gums	Botanical extracts for F&B, pharma & nutraceuticals	Health and food ingredients	Natural rosemary extracts with antioxidative properties	Natural plant extracts bearing antioxidants	Unique food flavours, dietary supplements	Natural specialty ingredient extracts
<b>Year</b>	1993	2003	2006	2014	2015	2016	2016
<b>Location</b>	USA	Switzerland	Belgium & Netherlands	Slovenia	Spain	USA	Germany
<b>Transaction Value (USD mn)</b>	NA	NA	13	10	11	20	8
<b>Rationale</b>	Expand geographic presence and strengthen team	Expand geographic presence	Strengthen natural product portfolio	Advance R&D capabilities, strong team, and expand portfolio of natural products	Strengthen product portfolio of natural products for food and health industry	Expand product portfolio	Strengthen position as a global player in natural specialty ingredients

# 20+ Companies acquired since 2010



DSM is a global specialty chemicals company, active in the health, nutrition, and materials space



**20+** Companies acquired since 2010

Company Acquired



**Business**

Lipid-based formulations

Nutritional products from microbial sources

Natural carotenoid products

Omega-3 EPA/DHA ingredients

Custom nutrient premixes for F&B

Nutritional products

Vitamin C products, nutritional supplements and tablets

**Year**

2006

2011

2011

2012

2012

2013

2015

**Location**

Sweden

USA

Spain

Canada

USA

New Zealand

China

**Deal Value (USD mn)**

31

1,032

NA

535

634

NA

NA

**Rationale**

Growth and expansion in health ingredients

Expand end market opportunities

Expand product portfolio (natural carotenoids)

Strengthen its global nutritional lipids platform

Expand food ingredients and blends division

Expand geographic footprint

Expand geographic footprint

# Leading Indian players in the Industry

S. No	Company Name	MCap (Rs Crs)	Sales (Rs Crs)	Remarks
1	Privi Speciality Chemicals	5550	1800	India's largest manufacturer & exporter of aroma chemicals Market share of >20% in top 10 products globally
2	SH Kelkar	3550	1900	Developed vast product portfolio of fragrances & flavour products with brands like SHK, Cobra and KEVA
3	Oriental Aromatics	1700	850	One of the largest Indian manufacturers of a variety of Aroma Chemicals, Camphor, Fragrances & Flavours.
4	Mangalam organics	515	400	Pioneer in the field of pine chemistry. It is a leading manufacturer of terpene and rosin derivatives.
5	Kanchi Karpooram	315	135	South India's first & largest producer of Terpene & Paper chemicals Leading producers of Camphor

Source : Company Financials

# Diversified Customer Base

## International Fragrance Companies



## Indian Fragrance Companies



## FMCG & Other MNCs





# Oriental Aromatics Ltd

- Incorporated in 1961, 1st to set-up Synthetic Camphor plant in India
- In 1999, Ventured into manufacturing of Aroma Chemicals via in-house developed technology
- In 2014, Inked long-term supply agreement with IFF for intermediates & Finished Products
- Largest Indian player in Pharmaceutical-grade Synthetic Camphor
- Key Clientele includes P&G, Jhonson & Jhonson, Novartis, JB Chemicals etc
- Satisfies 80 % camphor requirement for P&G's most popular 'Vicks' brand
- Company enters into fixed - price contracts with some of its customers
- Its key raw material, alpha - pinene, has witnessed high price volatility in the past
- Limited ability to pass on the impact of the increase in RM prices instantaneously

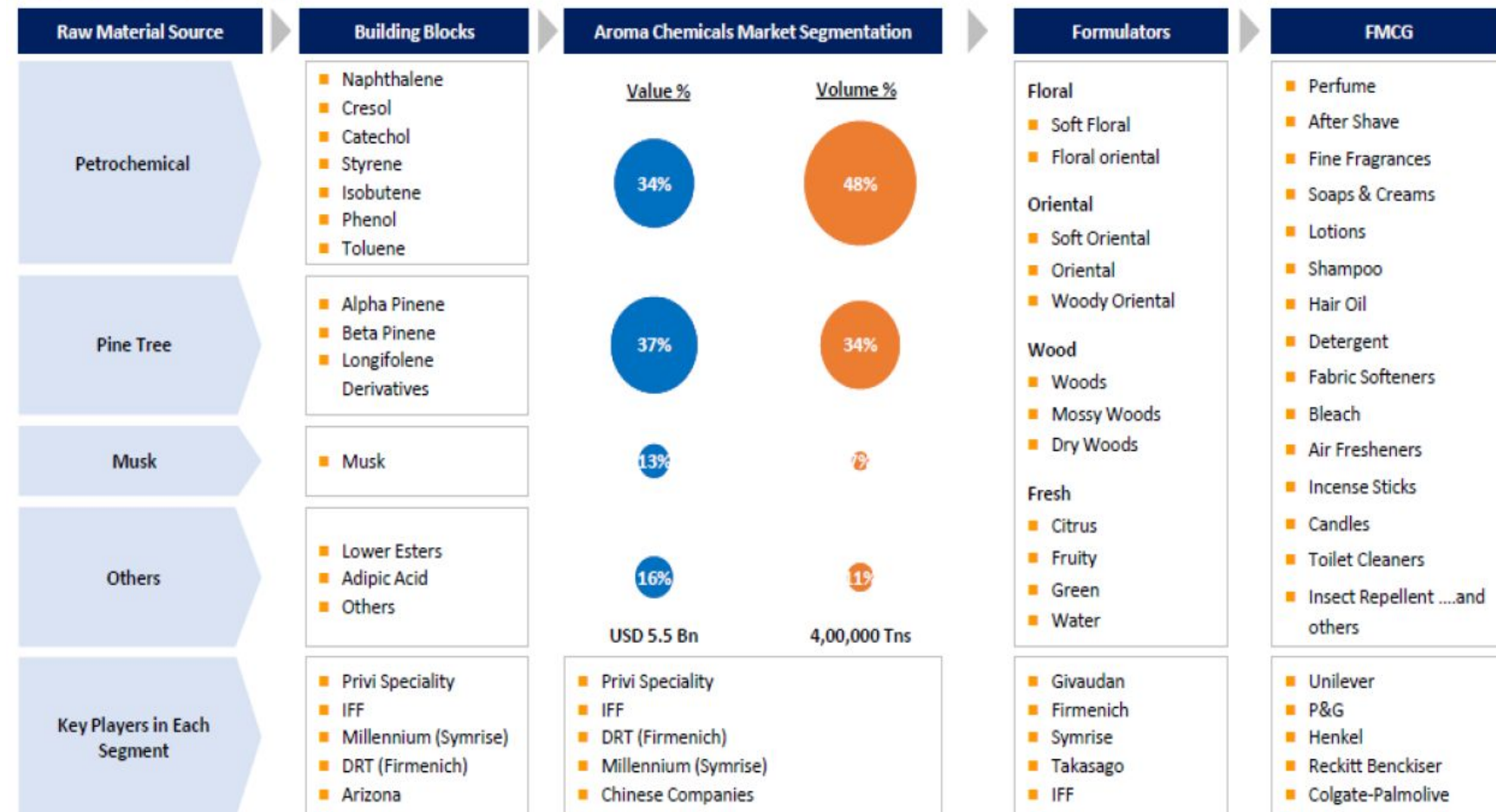
# SH Kelkar Ltd

- One of the largest F&F company in India
- Company is having presence in both Flavors as well as Fragrance segment
- IPO was brought in the year 2015
- Market share of 10% in India
- Fragrance segment contributes to nearly 85% of overall revenues
- Earlier it was called Kelkar Group, but now name changed to KEVA
- This is the 3rd Generation in the business - All Family members are trained chemists.
- Company has went for inorganic route in recent years

# Privi Speciality Chemicals Ltd

- India's largest manufacturer & exporter of aroma chemicals
- Market share of >20% in ten products globally, contributing 80% of its revenue
- Supplier to large global F&F blenders and FMCG companies
- Backward integrated to make aroma chemicals from Crude Sulphate Turpentine (CST)
- PRIVI is one of four global companies and only Asian company to use CST
- CST in comparison to Gum Turpentine Oil (GTO) enjoys advantages like long term contracts
- Launched multiple new products including Camphor and Galaxmusk in recent years

# Aroma chemicals value chain



# Givaudan JV with Privi

- Signed JV agreement in July 2021 to set up a new greenfield production facility at Mahad
- The facility is tailor made to manufacture small-volume fragrance ingredients of high complexity
- PRIVI will hold 51% of the equity capital.
- Total investment will be Rs 120 crores; Equity infusion of Rs 40 Crores and balance by debt
- PRIVI will manufacture 40 products exclusively for Givaudan which are part of its high end products
- The facility is likely to commission in FY25 and generate sales of 1-1.5x its assets

# Product Categories

## Pinene



- Dihydromyrcenol
- Amber Fleur
- Terpeneol
- Terpeneol Acetate
- Pine Oil
- Iso Bornyl Acetate
- Iso Borneol
- Camphor
- Sandal Fleur
- Indian Sandal Core

62%

## Citral



- Cyclocitral
- Citronellal
- Citronellol
- Citronellyl Nitrile
- Alpha Ionone

11%

## Musk & Speciality



- Galaxmusk
- Prionyl
- Timber Touch
- Timber Forte
- Nimberol
- Alpha Damascone

16%

## Phenol



- Ortho Tertiary Butyl  
Cyclo Hexyl Acetate
- Para Tertiary Butyl  
Cyclo Hexyl Acetate

8%

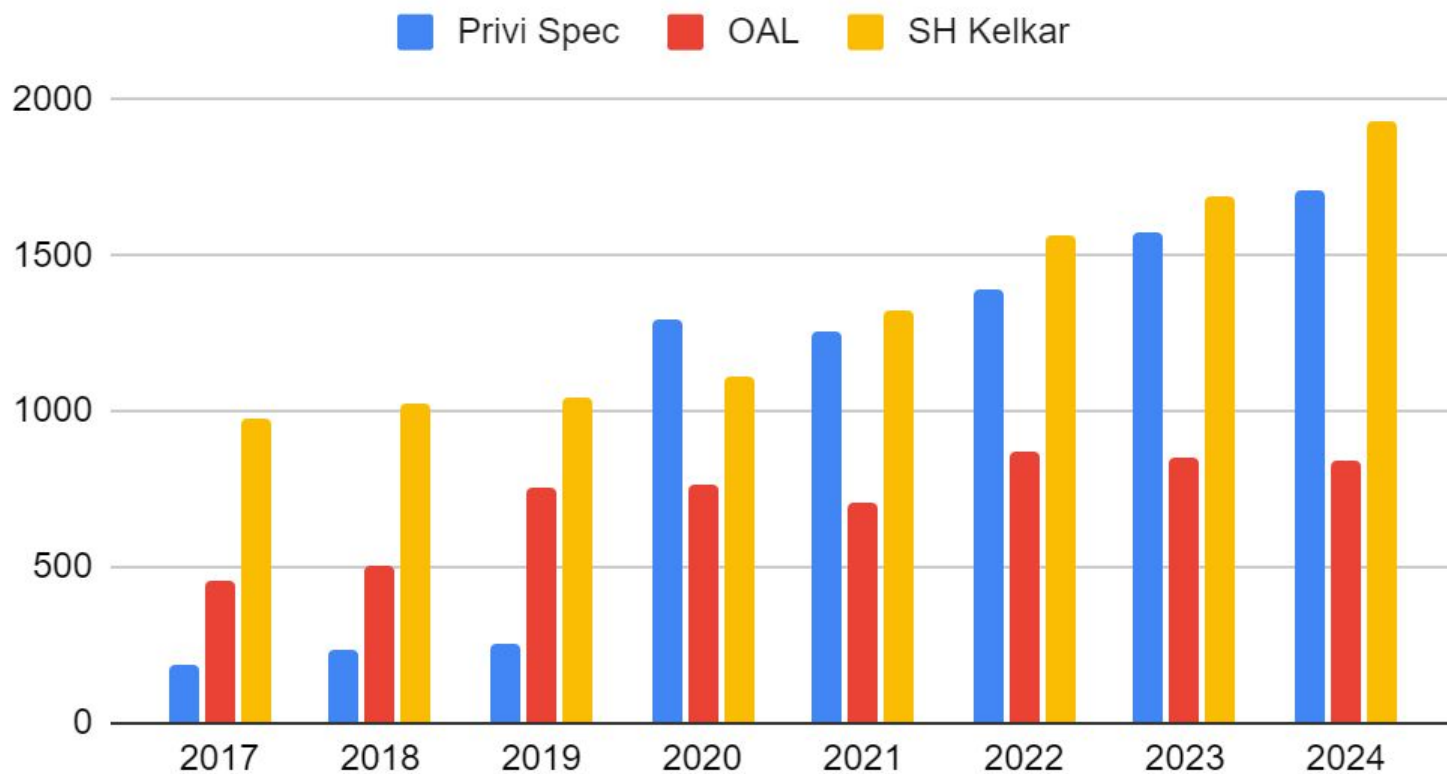
## Value Added



- 1, 8 Cineol
- 1,4 Cineol
- Limonene 95
- Terpinen-4-ol

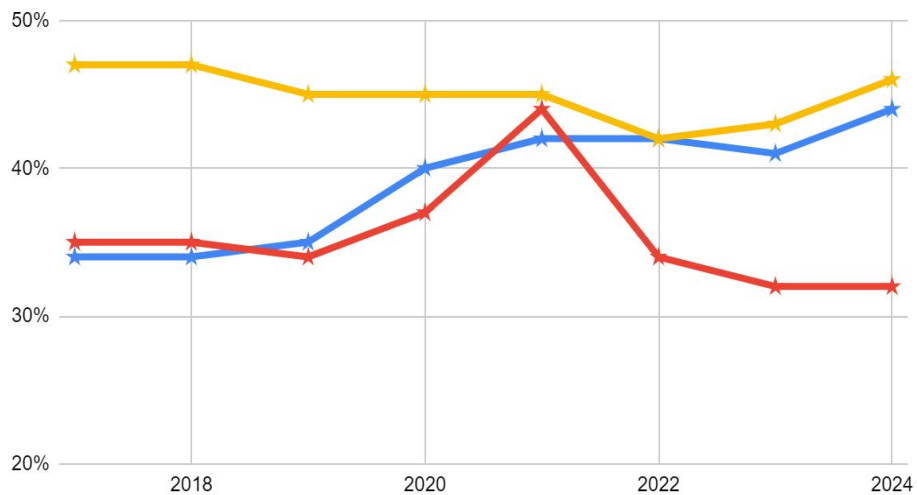
3%

# Sales Trend (Rs Crs)



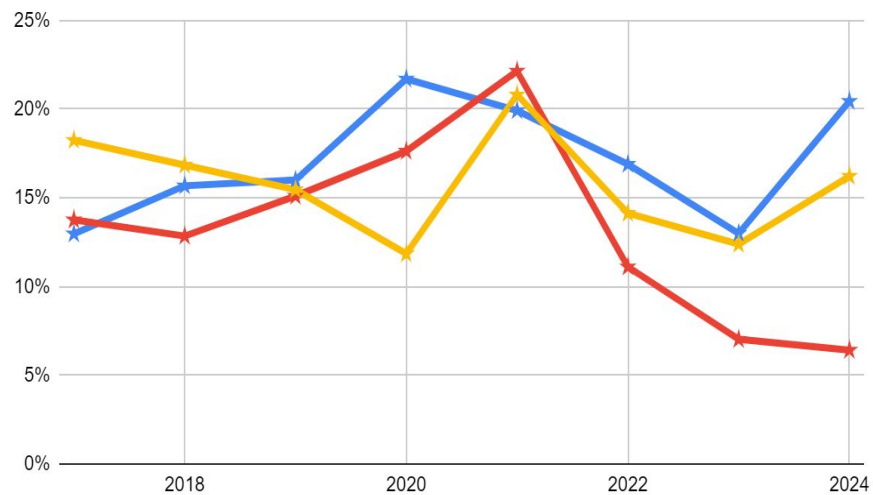
### Gross Margin Trend (%)

★ Privi Spec   ★ OAL   ★ SH Kelkar



### EBITDA Margin (%)

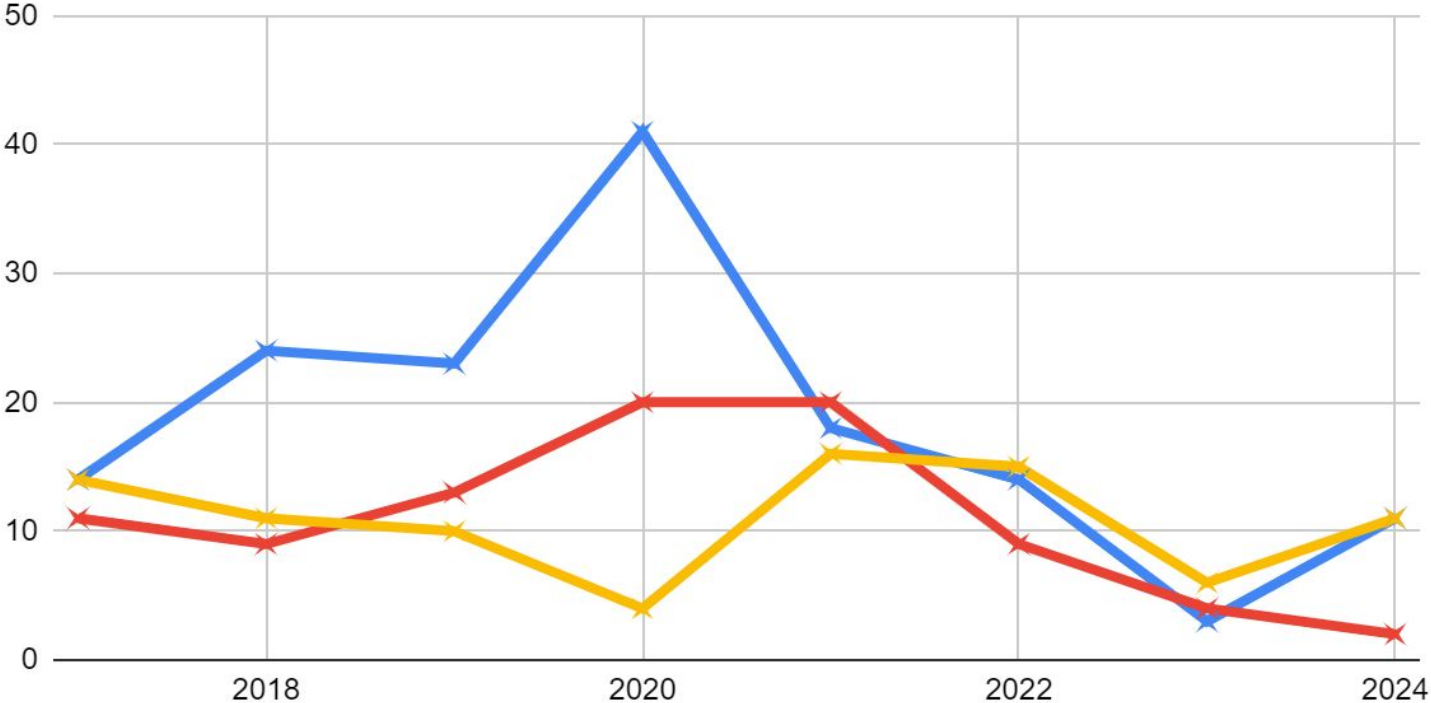
★ Privi Spec   ★ OAL   ★ SH Kelkar





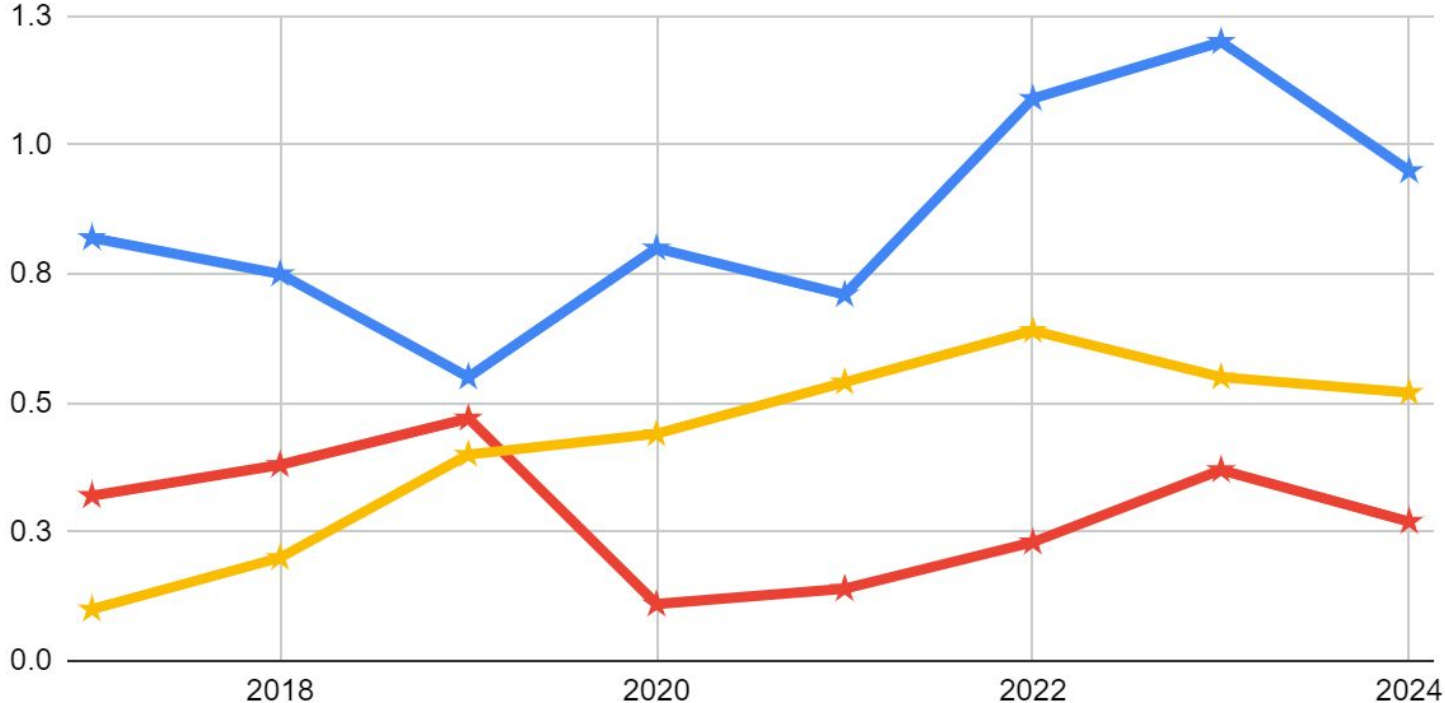
# ROE (%)

× Privi Spec   × OAL   × SH Kelkar



# Debt / Equity Ratio

★ Privi Spec   ★ OAL   ★ SH Kelkar



# Growth Drivers

- Strong growth in end user industries
- Consumers' inclination to experiment
- Expand portfolio basket
- In-depth understanding of consumers preferences
- Vertical integration
- Ability to manufacture products on a global scale
- Broad-based regulatory capabilities.

# Ingredients

- India is well positioned with abundance of raw materials and rich legacy of using natural products
- Synthetic ingredient manufacturers have chosen specific niches and molecules
- Rising disposable income, rural penetration and premiumisation are leading factors to increase demand
- Increasing acceptance of Indian products is a major growth driver
- Demand is driven by growth in end-user industries both globally and in India.

# Natural Base Ingredients

S.No	Ingredient	India's Global ranking	Production (MT)	Remarks
1	Spices	1	1,496,990	India contributes 70% of global spice production
2	Mint	1	32,000	India produces 80% of world's mint oil
3	Ginger	1	703,000	Indian dry ginger, known in the global market as 'Cochin Ginger', is considered the best in the world
4	Chilly / Pepper	1	1,299,940	World's hottest chilly is cultivated in the hills of Assam in North-East India
5	Lemongrass oil	1	1,000	This oil is used in imparting scent to soaps, detergents and insect repellent preparations
6	Eucalyptus oil	3	1,000	Used in small quantities to impart a fresh and clean aroma in soaps, detergents, lotions and perfumes
7	Star Anise, Fennel and Coriander	1	537,330	The essential oil from star anise is used to flavour soft drinks, bakery products and liquors
8	Cardamom	3	18,070	Cardamom is world's third-most expensive spice after saffron and vanilla

Source : Industry Reports

# Synthetic Base Ingredients

Others

8.0%

Musk

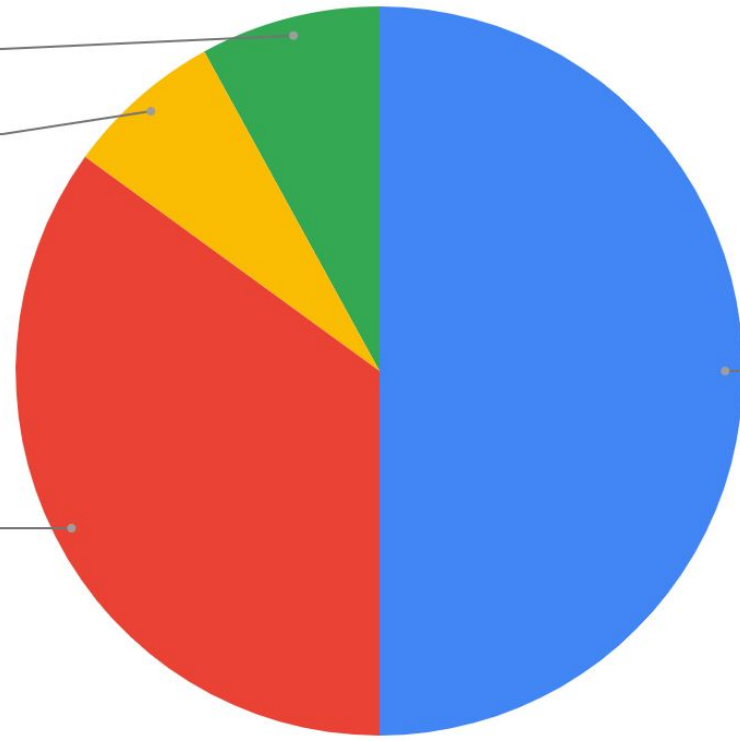
7.0%

Pine Tree

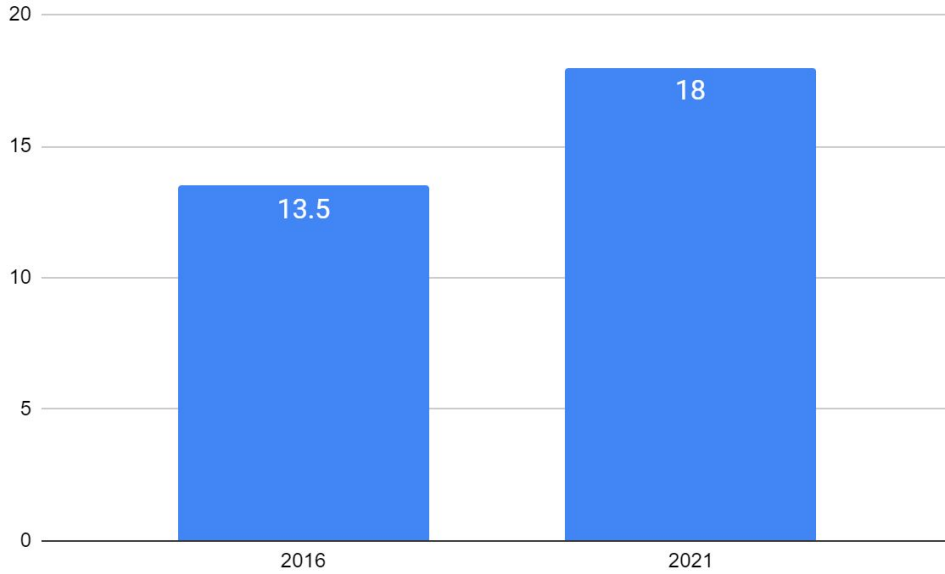
35.0%

Petrochemicals

50.0%



# Global Market Size



Global Base Ingredients Market Size (USD bn)

# Global Market Size

- Ingredients segment is growing at 6% CAGR
- Half of base ingredients go into F&F value chain, a space dominated by synthetic ingredients
- The other half, goes into nutraceutical value chain, dominated by natural base ingredients
- Consumer have universal inclination towards natural ingredients
- Globally, very few companies have scaled up which focus solely on manufacture of base ingredients.
- Major F&F blenders like Firmenich, Givaudan, IFF, Symrise are backward integrated.
- They manufacture proprietary ingredients captively for their critical blends
- Over 70% of the production comes either from top 10 F&F blenders or pure-play ingredients companies



# Companies operating in this space - Ingredients

Company	Revenue (Cr\$)	Product Range
Sharp Mint	3048	Mint
Synthite	2842	Spices Resins
Plant Lipids	1876	Spices
Eternis Fine Chem	934	Aroma Chemicals
AVT Natural	640	Spices Resins

# Key success Factors - Base Ingredients

## **Raw Material Procurement**

- Raw materials make up almost 60-70% of the cost
- Access to quality raw material at stable prices is crucial
- Seasonality of the raw material harvest is the major challenge
- Price fluctuation due to oil prices is a key area of concern
- Synthetic ingredient manufacturers have very low bargaining power over the price.

## **Relationship with Customers**

- Limited F&F players
- Customer set is largely concentrated to the top 10 players who dominate the global market.
- 50%+ volume often comes from top 3-4 customers.

## **Cost Control**

- ~50% of supply is managed by 3 major players in Kerala & there is less competition in this space
- Synthetic ingredients space is seeing increasing competition, especially from Chinese players

## **Process optimization**

- Process innovation

# Peer Valuation

Company Name	CMP (Rs)	MCap (Rs Crs)	PAT CAGR (5 Yrs)	ROE (5 Yrs)	P/E (FY24)
Privi Speciality Chemicals	1450	5550	35%	13%	55x
SH Kelkar	255	3550	7%	11%	29x
Oriental Aromatics	495	1700	-31%	10%	63x
Mangalam organics	580	515	-43%	14%	95x
Kanchi Karpooram	725	315	-42%	18%	38x

Source : Company Financials

# Risks

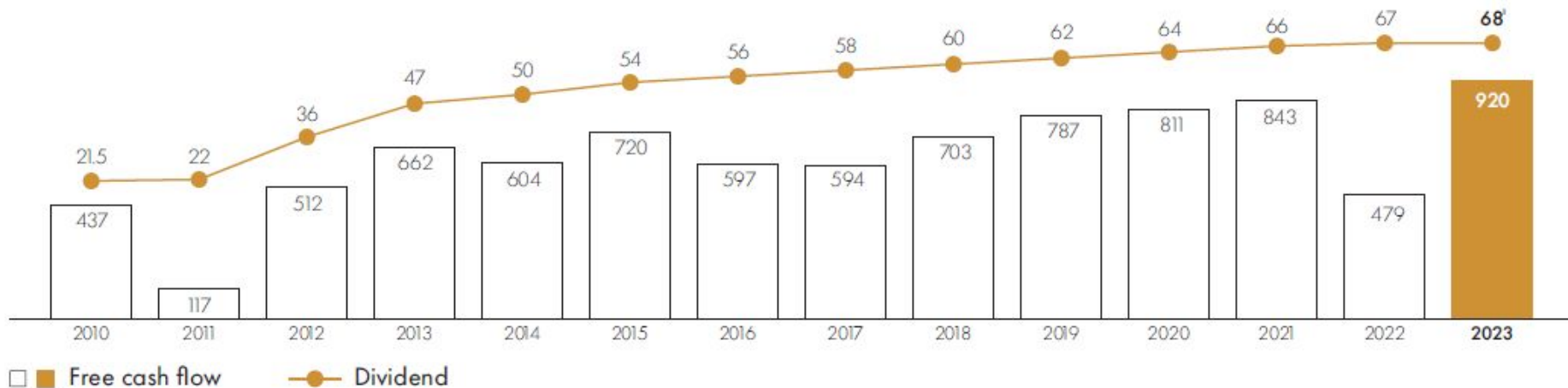
- Exposed to the risk of tightening regulations on environment and safety
- Spec chemicals experiencing a rapid change due to growing end-use applications
- Supply chain disruptions
- Inflationary trends and pricing uncertainty
- International conflicts / Geopolitical events
- Forex Fluctuations

# Summary

- Used as a Lifestyle product
- Capex Intensive Industry
- Complex Chemistry
- Regulatory Norms
- Technical Know-how
- Long Gestation period
- High Replacement Cost
- Stringent Purity Measure

## DIVIDEND PER SHARE AND FREE CASH FLOW

in Swiss francs | in millions of Swiss francs



1. Subject to shareholder approval at the AGM on 21 March 2024.

Source : Givaudan Annual Report

# **Sources**

- Industry Reports
- Company data
- DRHP
- CRISIL Reports
- Broker Reports

**Thank You**