

S H Kelkar and Company (SHKL) – BUY

Result Update

Current Market Price (CMP)

Rs.282

Fair Value (FV)

Rs.370

Rationale:

- Q2FY25 reveals good revenue growth; growth investments impact margins.
- These heavy upfront investments do drive material cuts to FY25E-27E EPS.
- This reflects management's bullishness on growth potential in coming years.
- The stock remains inexpensive at 22X FY26E P/E.
- Underpinning positive stance with a revised FV of Rs370 (24X Dec 2026E P/E).

(CDCs= creative development centers; P/E = Price to Earnings; EPS = Earnings Per Share)

Q2FY25 Earnings Update:

Positives:

- Growth was driven primarily by smaller accounts and the Unilever contract.
- Management guided revenues around Rs2100 cr for FY25, implying 14%+ growth.
- Free cash flow generation should exceed Rs200 cr starting FY27.
- Management's decision to invest in capacity expansion projects worth Rs200 cr across India and Europe.

Negatives:

- Margins weaker due to an inferior product mix & investments in new CDCs.
- Tariff moves by the US are a risk factor to watch.

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For detailed report dated 19th November 2024. Note: CMP & valuation may differ due to difference in dates.



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