

Mixed performance: Maintain BUY

Hikal Ltd (Hikal) earnings came above our estimate mainly led by higher tax base. The company posted revenues of INR4,575mn with 17.2% YoY increase which was above our estimate of INR4,094mn. Revenue growth was mainly driven by the Pharmaceuticals (20.7% YoY growth) segment, led by mainly due to new launches and value & volume growth in existing products. Despite 111 bps decline in gross margin due to change in product mix, EBITDA margin manage to remain at 18.4% level, was 121bps lower than our estimate. Adj. PAT came above our estimate at INR333mn (est INR298mn) supported by lower tax expense (30.8% vs 35.3%) and decline in interest cost.

Pharmaceutical Business: Favourable demand from existing products and new introductions to drive growth

The Pharmaceutical business revenue is equally divided into CRAM's and proprietary products (API) business. As on Q4FY19, Hikal has filed 28 DMFs including Pregabalin which is used for neuropathic pain, Sitagliptin which is an anti-diabetic, Quetiapine which is an anti-psychotic and Venlafaxine which is an anti depressant and Vildagliptin is an oral anti-diabetic. In the case of Pregabalin for which a DMF was filed in 2014, although the global product launches is expected in December 2018, revenues are gaining momentum with an early launch in the European Union and other semi-regulated markets where the product is off-patent. We expect Pregabalin API to add around Rs450-500mn in FY20-21E for the company and can grow at healthy pace thereafter. We expect the pharmaceutical business revenue to clock CAGR of 16.6% over FY19-21E, better than 14.6% CAGR over FY14-19, on the back of expected commercialization of 5-6 products and strong volume growth in existing products led by health demand. On the margin front, we expect introduction of high margin products and several cost rationalization initiatives taken at pharmaceutical manufacturing plants to result in margin improvement.

Crop Protection business: Stability in performance is visible

Crop protection business is split between Contract manufacturing for global innovators (CRAMs) which makes up around 70% of the revenue and the Proprietary segment which accounts for the remaining 30%. This segment is dominated only by a few large companies resulting in high concentration. Along with building its own portfolio of products, Hikal also enjoys global and exclusive supplier status for some molecules. As per the management, competition in this segment is lower than pharma, largely due to fewer players and consolidation among large players. The company has enhanced focus on its own products in Agri (versus entire focus on CRAMS earlier) and is beginning to develop some innovative agrochem products too. For crop protection, Hikal has a pipeline of 3-4 products/year, of which 1-2 products would be its own products. Owing to the above factors the management is targeting to achieve 50:50 revenue split between CRAMs and Proprietary products over the coming years. New product commercialization will help company to reduce client and product concentration. Moreover, management sounds optimistic about the future demand for the existing product portfolio as well. We expect taking above all into consideration; crop protection business is set to post revenue CAGR of 14.7% over FY19-21E with 51bps improvement in EBITDA margin (20.8% in FY19 vs 21.3% in FY21E).

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook **Positive****Stock**

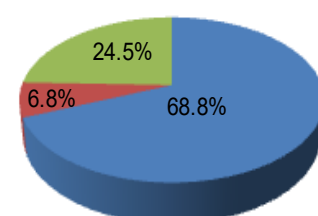
CMP (Rs)	175
Target Price (Rs)	218
BSE code	524735
NSE Symbol	HIKAL
Bloomberg	HKCI IN
Reuters	HIKA.BO

Key Data

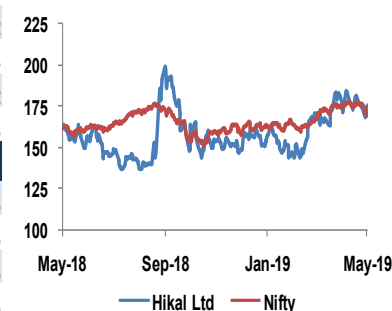
Nifty	11,279
52 Week H/L (Rs)	207/135
O/s Shares (Mn)	123
Market Cap (Bn)	21.1
Face Value (Rs)	2

Average volume

3 months	2,84,750
6 months	2,54,657
1 year	4,05,497

Share Holding Pattern (%)

■ Promoter ■ Institutions ■ Others

Relative Price Chart**Research Analyst**

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Key Financials					
YE March (Rs. mn)	FY17	FY18	FY19	FY20E	FY21E
Net Sales	10,139	13,001	15,896	18,137	21,328
Growth %	10%	28%	22%	14%	18%
EBIDTA	1,972	2,417	2,981	3,510	4,285
Growth%	9%	23%	23%	18%	22%
Net Profit	707	772	1,031	1,228	1,492
Growth %	71%	9%	33%	19%	21%
Diluted EPS	6	6	8	10	12
Growth %	71%	9%	33%	19%	21%
Profitability & Valuation					
EBIDTA (%)	19%	19%	19%	19%	20%
NPM (%)	7%	6%	6%	7%	7%
RoE (%)	12%	12%	14%	15%	16%
RoCE (%)	11%	12%	14%	16%	18%
P/E (x)	30.5	27.9	20.9	17.6	14.5
EV/EBITDA (x)	13.6	11.2	9.1	7.7	6.1
P/BV (x)	3.6	3.2	2.9	2.5	2.2

Source: Company, BP Equities Research

Hikal Ltd Q4FY19 Quarterly Result

YE March (INR. mn)	Q4 FY19	Q3 FY19	Q-o-Q change %	Q4 FY18	Y-o-Y change %
Net Sales	4,516	4,054	11.4%	3,835	17.8%
Other Operating Income	59	63		70	
Total Revenue	4,575	4,117	11.1%	3,905	17.2%
Less:					
Raw Material Cost	2,603	2,230	16.7%	2,178	19.5%
Operating & Manufacturing Expenses	770	710	8.5%	691	11.4%
Employee Cost	362	393	(7.9%)	321	12.8%
Total Expenditure	3,735	3,334	12.0%	3,190	17.1%
EBIDTA	840	783	7.2%	715	17.5%
Less: Depreciation	232	235	(1.2%)	214	8.5%
EBIT	608	548	10.9%	500	21.4%
Less: Interest	126.4	133.6	(5.4%)	124.7	1.4%
Add: Other income	1	5		16	
Profit before tax	482	420	14.8%	392	22.9%
Adjusted Profit before Tax	482	420	14.8%	392	22.9%
Less: Total Tax	148	126	17.8%	139	7.0%
Profit After Tax	333	294	13.5%	253	31.6%
Other comprehensive Income	0	0		0	
Minority Interest	0	0		0	
Adjusted Profit After Tax	333	294	13.5%	253	31.6%
Diluted EPS (Rs.)	2.7	2.4	13.5%	2.1	31.6%
Adjusted Diluted EPS	2.7	2.4	13.5%	2.1	31.6%
Diluted No of Share (mn)	123.3	123.3		123.3	
Margin Analysis %			Change in bps		Change in bps
EBIDTA Margin %	18.4%	19.0%	(67)	18.3%	6
EBIT Margin %	13.3%	13.3%	(3)	12.8%	46
NPM %	7.3%	7.1%	15	6.5%	80
Effective Tax Rate %	30.8%	30.0%	79	35.3%	(457)

Source: Company, BP Equities Research

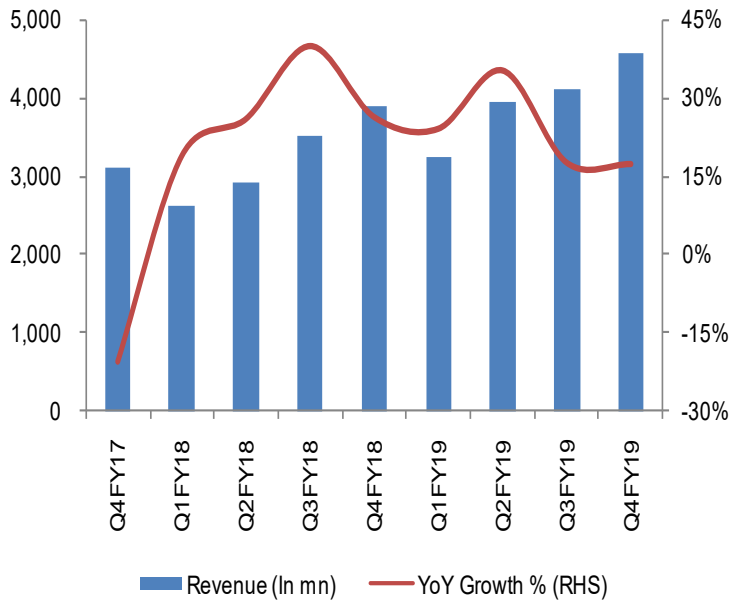
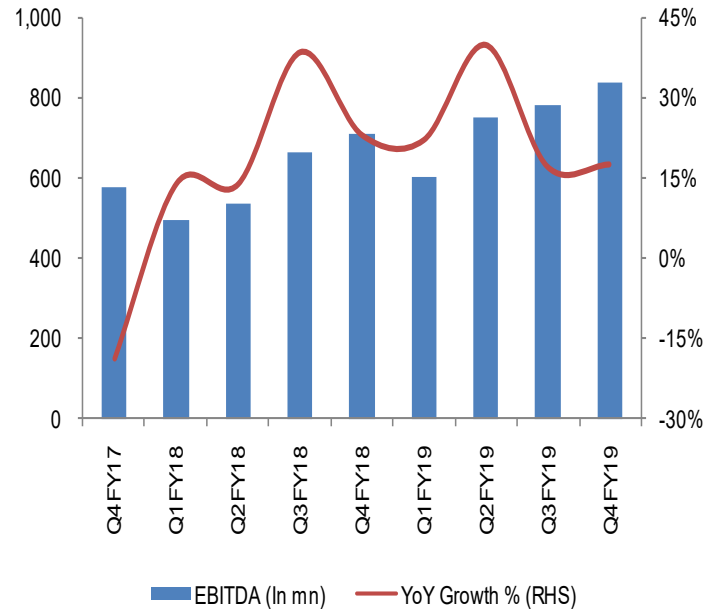
Valuation & Outlook

We expect the company to post 15.8% revenue CAGR over FY19-21E led by commercialization of new products and favourable demand in the existing product portfolio for both businesses. We forecast 134bps EBITDA margin expansion over FY19-21E led by better product mix and operating efficiency on account of higher utilization levels and cost rationalization measures at the Pharma facility. We estimate 20.3% PAT CAGR on the back of better operational performance. Considering the expected strong growth in profitability, healthy balance sheet, improving return ratios and good corporate governance practices, we are optimistic about the long-term growth prospects of the company. At CMP of INR 175 stock trades at 17.6x FY20E and 14.5x FY21E EPS. We maintain our Buy rating with revised target price of INR218@18x (In line with 10 yr average P/E) FY21E EPS.

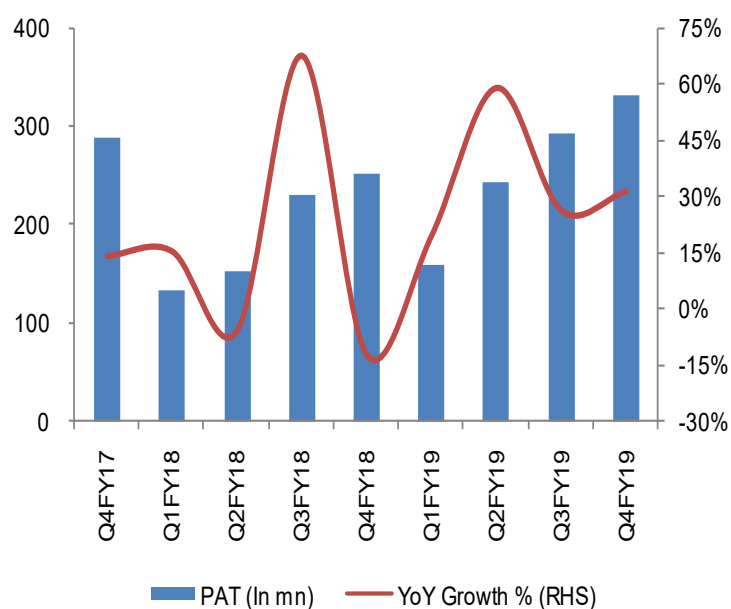
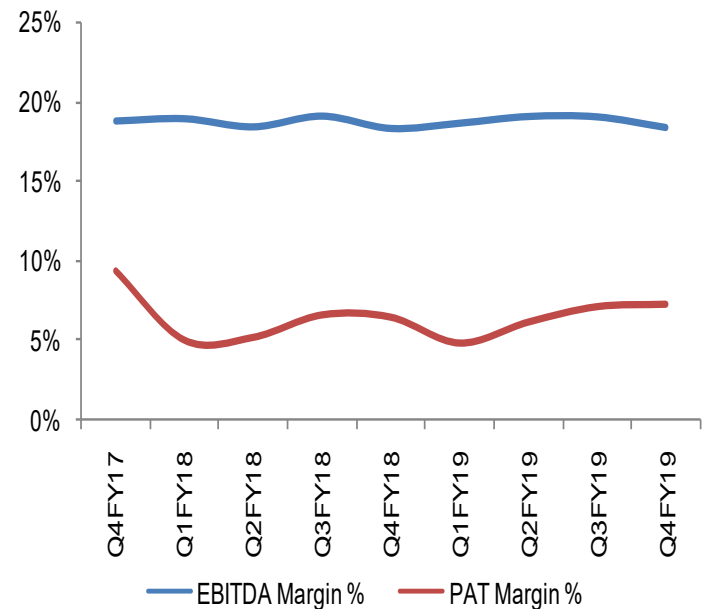
Revenue came above our estimates as strong revenue growth from Pharmaceuticals segment

Adj. PAT came above our estimate due to lower interest cost and tax rate (30.8% vs 35.3% in Q4FY18)

EBITDA margins remained flat at 18.4% (est 19.7%), below our estimate mainly due to change in product mix .

Revenue grew by 17.2% YoY

EBITDA surged by 17.5% YoY


Source: Company, BP Equities Research

PAT accelerated by 31.6% YoY

EBITDA/ PAT margin trend


Source: Company, BP Equities Research

**Segment wise Performance**

INR in Mn	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Revenue									
Crop protection products	1,332	1,058	1,270	1,387	1,758	1,486	1,439	1,596	1,984
YoY Growth %	10.3%	33.7%	43.7%	28.4%	32.0%	40.5%	13.3%	15.0%	12.8%
Pharmaceuticals	1,764	1,609	1,653	2,119	2,147	1,770	2,509	2,521	2,592
YoY Growth %	4.4%	13.2%	14.8%	48.4%	21.7%	10.0%	51.8%	19.0%	20.7%
EBIT									
Crop protection products	257	96	222	225	322	247	350	319	301
YoY Growth %	4.7%	-26.4%	37.4%	9.3%	25.4%	158.3%	57.5%	41.7%	-6.5%
Pharmaceuticals	223	246	164	270	305	218	249	334	391
YoY Growth %	-6.3%	31.3%	-21.1%	60.2%	37.1%	-11.3%	52.1%	23.3%	28.2%
EBIT Margin %									
Crop protection products	19.3%	9.0%	17.5%	16.2%	18.3%	16.6%	24.3%	20.0%	15.2%
Pharmaceuticals	12.6%	15.3%	9.9%	12.8%	14.2%	12.3%	9.9%	13.2%	15.1%
Revenue Contribution in %									
Crop protection products	43.0%	39.7%	43.4%	39.6%	45.0%	45.6%	36.5%	38.8%	43.4%
Pharmaceuticals	57.0%	60.3%	56.6%	60.4%	55.0%	54.4%	63.5%	61.2%	56.6%
EBIT Contribution in %									
Crop protection products	53.6%	28.0%	57.5%	45.4%	51.4%	53.1%	58.4%	48.8%	43.5%
Pharmaceuticals	46.4%	72.0%	42.5%	54.6%	48.6%	46.9%	41.6%	51.2%	56.5%

Source: Company, BP Equities Research



Profit & Loss A/c					
YE March (INR. mn)	FY17	FY18	FY19	FY20E	FY21E
Revenue	10,139	12,961	15,896	18,137	21,328
Growth %	9.5%	27.8%	22.6%	14.1%	17.6%
Total Revenue	10,139	12,961	15,896	18,137	21,328
Less:					
Raw Material Consumed	5,089	6,989	8,538	9,620	11,200
Employee Cost	1,167	1,281	1,504	1,729	1,989
Other Expenses	1,912	2,274	2,873	3,278	3,855
Total Operating Expenditure	8,167	10,544	12,915	14,627	17,043
EBITDA	1,972	2,417	2,981	3,510	4,285
Growth %	9.0%	22.6%	23.3%	17.7%	22.1%
Less: Depreciation	691	856	929	1,084	1,417
EBIT	1,281	1,561	2,052	2,426	2,868
Growth %	12.7%	21.9%	31.4%	18.2%	18.2%
Interest Paid	483	491	584	633	682
Non-operating Income	34	45	23	40	40
Extraordinary Income	0	0	0	0	0
Profit Before tax	832	1,115	1,491	1,833	2,227
Tax	125	343	460	605	735
Net Profit	707	772	1,031	1,228	1,492
Adjusted Profit	707	772	1,031	1,228	1,492
Reported Diluted EPS Rs	5.7	6.3	8.4	10.0	12.1
Growth %	71.0%	9.3%	33.5%	19.2%	21.5%
Adjusted Diluted EPS Rs	5.7	6.3	8.4	10.0	12.1
Growth %	71.0%	9.3%	33.5%	19.2%	21.5%

Source: Company, BP Equities Research

Cash Flow Statement					
YE March (INR. Mn)	FY17	FY18	FY19	FY20E	FY21E
PAT	706.7	772.3	1,030.6	1,228.1	1,491.9
(Less)/Add: Extraordinary Income/Expense	0.0	0.0	0.0	0.0	0.0
Less: Non Operating Income	(34.4)	(44.6)	(22.6)	(40.0)	(40.0)
Add: Depreciation	691.4	855.9	928.8	1,083.5	1,416.7
Add: Interest Paid	482.7	491.2	584.3	633.0	681.7
Tax Adjustment	0.0	0.0	0.0	0.0	0.0
Operating Profit before Working Capital Changes	1,846.5	2,074.7	2,521.1	2,904.7	3,550.3
(Inc)/Dec in Current Assets	(1,468.2)	(890.6)	(182.6)	(599.0)	(852.9)
Inc/(Dec) in Current Liabilities	146.8	989.6	(383.3)	847.9	678.3
Changes in Inventory	275.3	(394.7)	(611.8)	(513.4)	(731.3)
Net Cash Generated From Operations	800.4	1,779.0	1,343.5	2,640.3	2,644.5
Cash Flow from Investing Activities					
(Inc)/Dec in Fixed Assets	4,096.8	(508.6)	(1,722.5)	(1,600.0)	(600.0)
(Inc)/Dec in Capital Work In Progress	41.9	(535.7)	424.2	0.0	0.0
(Inc)/Dec in Investment (Strategic)	584.7	(392.2)	344.2	(62.8)	(69.1)
(Inc)/Dec in Investment (Others)	(5.0)	10.2	15.8	0.0	0.0
Add: Non Operating Income	34.4	44.6	22.6	40.0	40.0
(Inc)/Dec in Intangible Assets	(8.2)	(15.5)	(32.4)	0.0	0.0
Net Cash Flow from/(used in) Investing Activities	4,744.5	(1,397.2)	(948.0)	(1,622.8)	(629.1)
Cash Flow from Financing Activities					
Inc/(Dec) in Total Loans	456.5	345.2	396.2	500.0	500.0
Inc/(Dec) in Reserves & Surplus	(157.8)	19.7	(96.5)	0.0	(0.0)
Inc/(Dec) in Equity	0.0	0.0	82.2	0.0	0.0
Dividend Paid	(148.0)	(148.0)	(148.0)	(235.3)	(285.8)
Less: Interest Paid	(482.7)	(491.2)	(584.3)	(633.0)	(681.7)
Adjustments	(5,239.7)	0.0	0.0	0.0	0.0
Exceptional Item	0.0	0.0	0.0	0.0	0.0
Net Cash Flow from Financing Activities	(5,571.8)	(274.2)	(350.4)	(368.3)	(467.6)
Net Inc/Dec in cash equivalents	(26.9)	107.6	45.2	649.1	1,547.8
Opening Balance	191.6	164.7	272.2	317.4	966.5
Closing Balance Cash and Cash Equivalents	164.7	272.2	317.4	966.5	2,514.4

Source: Company, BP Equities Research



Balance Sheet					
YE March(INR. mn)	FY17	FY18	FY19	FY20E	FY21E
Liabilities					
Equity Capital	164	164	247	247	247
Reserves & Surplus	5,886	6,530	7,316	8,309	9,515
Equity	6,050	6,694	7,562	8,555	9,761
Net Worth	6,050	6,694	7,562	8,555	9,761
Minority Interest					
Net Deferred tax liability/(Asset)	41	152	289	289	289
Total Loans	5,504	5,738	5,997	6,497	6,997
Capital Employed	11,595	12,584	13,848	15,341	17,047
Assets					
Gross Block	7,375	7,883	9,606	11,206	11,806
Less: Depreciation	691	1,547	2,476	3,560	4,976
Net Block	6,683	6,336	7,130	7,646	6,829
Capital WIP	619	1,155	731	731	731
Investments	580	972	628	691	760
Others - A	36	26	10	10	10
Current Assets					
Inventories	2,636	3,031	3,642	4,156	4,887
Sundry Debtors	2,565	2,874	3,497	3,990	4,692
Cash and Bank Balance	165	272	317	967	2,514
Current Investments	0	0	0	0	0
Loans and Advances	595	1,139	748	854	1,004
Other Current Assets	107	145	95	96	96
Total Current Assets	6,068	7,461	8,300	10,062	13,194
Less:Current Liabilities & Provisions					
Sundry Creditors	1,304	1,645	1,610	2,262	2,659
Provisions	337	605	41	46	55
Other Current Liabilities	759	1,139	1,356	1,547	1,819
Total Current Liabilities & Provisions	2,401	3,390	3,007	3,855	4,533
Capital Applied	11,595	12,584	13,848	15,341	17,047

Source: Company, BP Equities Research

Key Ratios					
YE March	FY17	FY18	FY19	FY20E	FY21E
Key Operating Ratios					
EBITDA Margin (%)	19.4%	18.7%	18.8%	19.4%	20.1%
Tax / PBT (%)	15.1%	30.7%	30.9%	33.0%	33.0%
Net Profit Margin (%)	7.0%	6.0%	6.5%	6.8%	7.0%
RoE (%)	12.1%	12.1%	14.5%	15.2%	16.3%
RoCE (%)	11.2%	12.3%	14.3%	16.3%	17.9%
Current Ratio (x)	2.5x	2.2x	2.8x	2.6x	2.9x
Dividend Payout (%)	20.9%	19.2%	14.4%	14.4%	14.4%
Book Value Per Share (INR)	49.1	54.3	61.3	69.4	79.2
Financial Leverage Ratios					
Debt/ Equity (x)	0.9x	0.9x	0.8x	0.8x	0.7x
Interest Coverage (x)	4.1x	4.9x	5.1x	5.5x	6.3x
Growth Indicators %					
Growth in Net Block (%)	7.2%	(5.2%)	12.5%	7.2%	(10.7%)
Sales Growth (%)	9.5%	27.8%	22.6%	14.1%	17.6%
EBITDA Growth (%)	9.0%	22.6%	23.3%	17.7%	22.1%
Net Profit Growth (%)	71.0%	9.3%	33.5%	19.2%	21.5%
Diluted EPS Growth (%)	71.0%	9.3%	33.5%	19.2%	21.5%
Turnover Ratios					
Debtors Days	92	81	80	80	80
Creditors Days	58	57	46	46	46
Inventory Days	95	85	84	84	84

Source: Company, BP Equities Research

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