

All around beat; Crop protection outshined Pharma: Revised to Hold

Hikal posted revenue of INR 5,325mn with 40.5% YoY growth which was above our estimate of INR 4,859mn mainly driven by strong growth in the both Pharmaceutical and Crop protection segment. On segmental performance: The crop protection segment grew by 54% (YoY) to INR 2348mn on the back of strong volume growth in existing products and commercialization of a new product from their newly built facility in Panoli Pharmaceutical segment revenue surged by 32% to INR 2,977mn based on increased volumes of existing API Generics and CDMO products. During the quarter, the company has filled US DMF for Favipiravir API to supporting both domestic and global markets. Despite 129bps contraction in gross margin, EBITDA margin managed to improve by 188bps to 20.5%, was 142bps above our estimate. EBITDA margin was supported by better absorption of fixed costs. EBIT margin of the Crop protection segment improved by 212bps (YoY) with 48.5% (vs 45.6% in Q4FY20) contribution to overall EBIT. The pharmaceutical segment's EBIT margin enhanced by 238ps with ~41.5% contribution to overall EBIT. PAT came higher than our estimate at INR 509mn (est INR417mn) driven by superior operational performance and lower finance cost (INR 99.7mn vs INR 137mn). In Animal health business (8-10% of Pharma segment), the company has signed a 10-year supply contract for a portfolio of niche APIs with a leading global multinational customer. The development will start from FY22 and commercial supplies will commence post successful development and plant commercialisation estimated to be in FY24 onwards. With this deal, Hikal is entering into a niche area of chemistry and products thereby bolstering its Animal Health vertical. Hikal and its customer will be jointly investing at its Panoli, Gujarat site to setup a multipurpose manufacturing asset for manufacturing of these API's. The company has developed and commercialised a new Fungicide (CDMO) for a Japanese customer, they supply of the same is already started, significant scale up expected in FY22E. Given the lag effect of the capex, the management expects some impact in FY22 and substantial impact in FY23. Accordingly, the management has guided for 15- 20% revenues growth over FY22-FY24. Going forward, the management expects EBITDA margin improvement of 50-100 bps /year on the back of several cost rationalisation and efficiency improvement measures. Going by the capex guidance, (INR 3.5bn out of which large part to be completely by 1HFY22E) things are looking encouraging for FY22 onwards. The Company expects an asset turnover of 1.75x from the newly built capacities, translating into a blended asset turnover of 1.5x in coming years.

Stock Rating

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

Sector Outlook

Positive

Stock

CMP (INR)	326
Target Price (INR)	310
BSE code	524735
NSE Symbol	HIKAL
Bloomberg	HKCI IN
Reuters	HIKA.BO

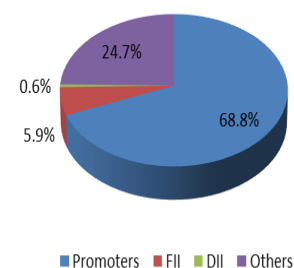
Key Data

Nifty	14,823
52WeekH/L(INR)	347/97
O/s Shares (Mn)	123
Market Cap (INR bn)	40
Face Value (INR)	2

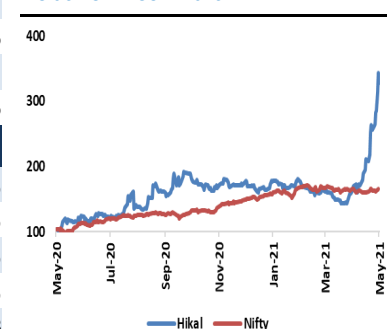
Average volume

3 months	13,21,475
6 months	9,88,326
1 year	11,37,056

Share Holding Pattern (%)



Relative Price Chart



Research Analyst

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Key Financials					
YE March (INR. mn)	FY19	FY20	FY21	FY22E	FY23E
Net Sales	15,896	15,073	17,204	19,467	22,345
Growth %	23%	-5%	14%	13%	15%
EBIDTA	2,981	2,732	3,229	3,757	4,516
Growth%	23%	-8%	18%	16%	20%
Net Profit	1,031	844	1,332	1,863	2,390
Growth %	33%	-18%	58%	40%	28%
Diluted EPS	8	7	11	15	19
Growth %	33%	-18%	58%	40%	28%

Profitability & Valuation					
EBIDTA (%)	18.8%	18.1%	18.8%	19.3%	20.2%
NPM (%)	6.5%	5.6%	7.7%	9.6%	10.7%
RoE (%)	14.5%	12.7%	15.2%	18.5%	19.8%
RoCE (%)	14.2%	14.3%	14.6%	17.2%	19.7%
P/E (x)	39.0	47.6	30.2	21.6	16.8
EV/EBITDA (x)	15.4	16.5	13.9	11.7	9.4
Net Debt/ EBITDA (x)	1.9	1.8	1.5	1.0	0.5

Source: Company, BP Equities Research

Variance Analysis

YE March (INR. Mn)	Q4 FY21	Q3 FY21	Q-o-Q change %	Q4 FY20	Y-o-Y change %
Net Sales	5,316	4,620	15.1%	3,741	42.1%
Other Operating Income	9	13		49	
Total Revenue	5,325	4,633	14.9%	3,790	40.5%
Less:					
Raw Material Cost	2,797	2,468	13.4%	1,942	44.0%
Operating & Manufacturing Expenses	1,012	841	20.3%	742	36.5%
Employee Cost	423	411	2.9%	400	5.7%
Total Expenditure	4,232	3,720	13.8%	3,084	37.2%
EBIDTA	1,093	913	19.6%	706	54.7%
Less: Depreciation	216	218	(1.2%)	209	2.9%
EBIT	877	695	26.2%	497	76.5%
Less: Interest	99.7	80.5	23.9%	137.0	(27.2%)
Add: Other income	28.7	5.2		17.3	
Exceptional Items	0	0		0	
Profit before tax	806	620	30.1%	377	113.7%
Adjusted Profit before Tax	806	620	30.1%	377	113.7%
Less: Total Tax	297	217	36.8%	133	124.1%
Profit After Tax	509	403	26.4%	245	108.1%
Minority Interest	0	0		0	
Adjusted Profit After Tax	509	403	26.4%	245	108.1%
Diluted EPS (Rs.)	4.1	3.3	26.4%	2.0	108.1%
Adjusted Diluted EPS	4.1	3.3	26.4%	2.0	108.1%
Diluted No of Share (mn)	123.3	123.3		123.3	
Margin Analysis %			Change in bps		Change in bps
Gross Margin %	47.5%	46.7%	72	48.8%	-129
EBIDTA Margin %	20.5%	19.7%	81	18.6%	188
EBIT Margin %	16.5%	15.0%	147	13.1%	336
NPM %	9.6%	8.7%	87	6.5%	311
Effective Tax Rate %	36.8%	35.0%	182	35.1%	170

Revenue came above our estimates led by strong performance in both Pharmaceutical (+11%QoQ,+32% YoY) and Crop protection segment (+21%QoQ,+54% YoY)

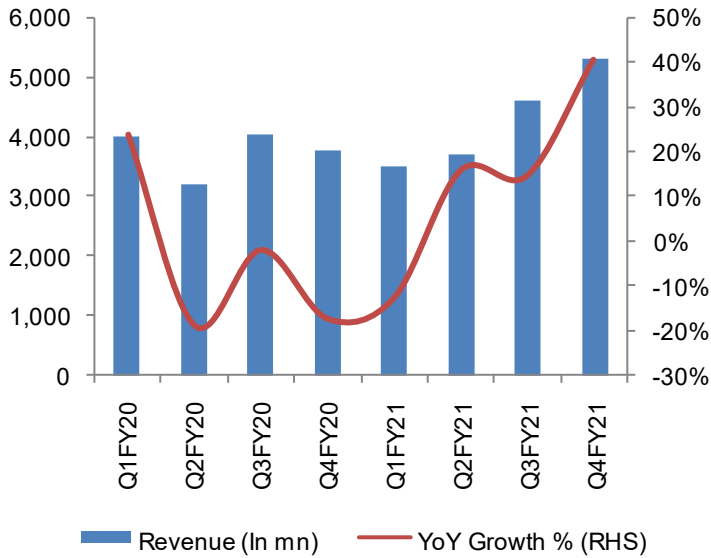
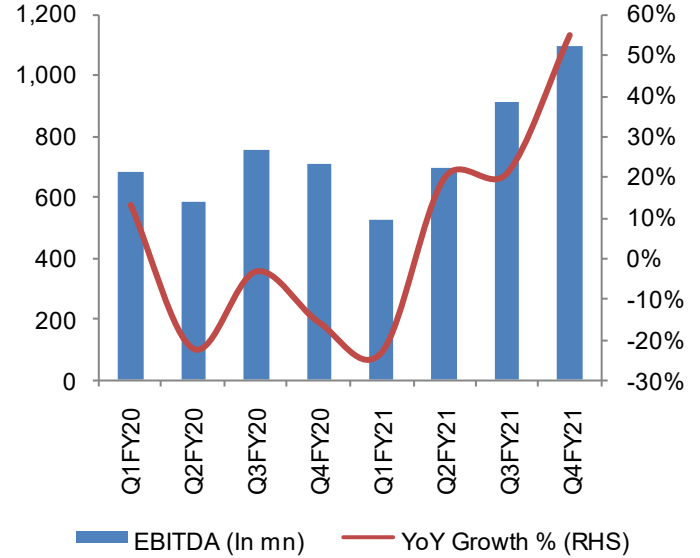
PAT came above our estimate due to better operational performance and lower finance cost

Despite 129 bps contraction in gross margin, EBITDA margins improved by 188bps supported by better absorption of fixed costs

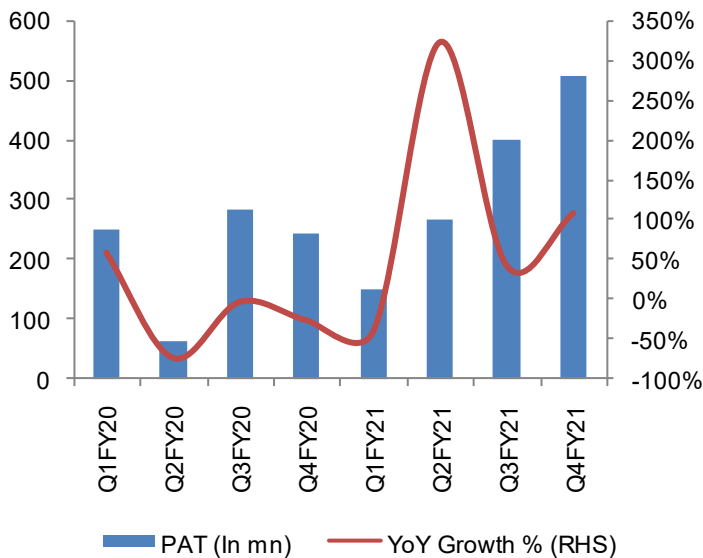
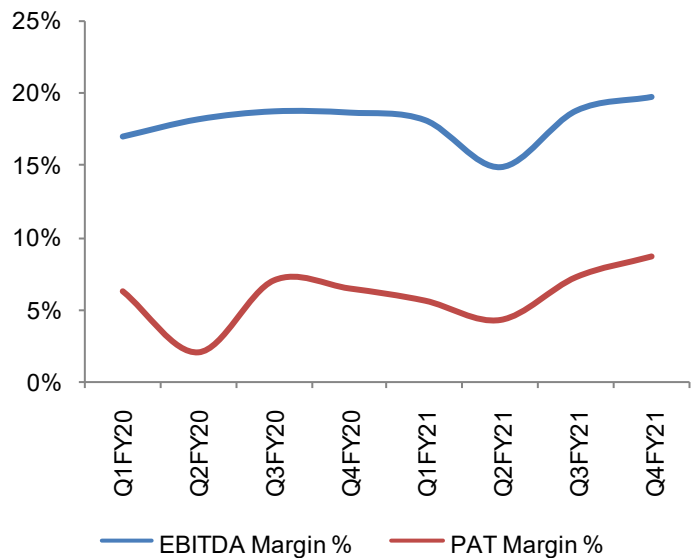
Source: Company, BP Equities Research

Valuation & Outlook

Going forward, Hikal's favourable growth prospects are driven by an expected increase in volume offtake for new product launches, ramp-up in production of high gross margin molecules, continuous development of new molecule pipeline and receipt of new inquiries from global customers aiming to diversify their supply chain. We foresee Hikal to post 14% revenue CAGR over FY21-23E led by the commercialization of new products and favourable demand in the existing product portfolio for both businesses. We expect 144bps EBITDA margin expansion over FY21-23E led by better product mix and operating efficiency on account of higher utilization levels and cost rationalization measures at the Pharma facility. The balance of portfolio among high value and high volume products coupled with lower tax rate (35.5% in FY21 vs 25.2% going forward) will help it clock a faster growth in earnings. Considering better growth visibility, we upward raised our earnings estimate for FY22 and FY23 by 51% and 49% respectively (largely due to change in tax rate). Hence, we upward revise target price to INR 310 (earlier INR202) by valuing the stock at P/E of 16x on Its FY23E EPS. However, in the backdrop of recent outperformance and need for consistency, we lower our rating to HOLD (from Buy earlier).

Revenue grew by 40.5% YoY

EBITDA improved by 54.7%


Source: Company, BP Equities Research

Better operational performance resulted in healthy PAT growth

EBITDA and PAT margin trend


Source: Company, BP Equities Research

**Segment Wise Performance of last 12 Quarters**

	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21
Revenue												
Crop protection products	1,486	1,439	1,596	1,984	1,993	1,128	1,556	1,526	1,391	926	1,943	2,348
QoQ Growth %	-15%	-3%	11%	24%	0%	-43%	38%	-2%	-9%	-33%	110%	21%
YoY Growth %	41%	13%	15%	13%	34%	-22%	-2%	-23%	-30%	-18%	25%	54%
Pharmaceuticals	1,770	2,509	2,521	2,592	2,039	2,082	2,484	2,264	2,137	2,793	2,690	2,977
QoQ Growth %	-18%	42%	0%	3%	-21%	2%	19%	-9%	-6%	31%	-4%	11%
YoY Growth %	10%	52%	19%	21%	15%	-17%	-1%	-13%	5%	34%	8%	32%
EBIT												
Crop protection products	247	350	319	301	268	213	237	278	168	78	308	478
QoQ Growth %	-23%	42%	-9%	-5%	-11%	-20%	11%	17%	-39%	-53%	293%	55%
YoY Growth %	158%	58%	42%	-7%	8%	-39%	-25%	-8%	-37%	-63%	30%	72%
Pharmaceuticals	218	249	334	391	284	250	410	332	218	497	477	507
QoQ Growth %	-29%	14%	34%	17%	-27%	-12%	64%	-19%	-34%	128%	-4%	6%
YoY Growth %	-11%	52%	23%	28%	30%	0%	23%	-15%	-23%	99%	16%	53%
EBIT Margin %												
Crop protection products	17%	24.3%	20.0%	15.2%	13.4%	18.9%	15.2%	18.2%	12.1%	8.5%	15.9%	20.3%
Pharmaceuticals	12%	9.9%	13.2%	15.1%	13.9%	12.0%	16.5%	14.6%	10.2%	17.8%	17.7%	17.0%
Revenue Contribution in %												
Crop protection products	46%	36.5%	38.8%	43.4%	49.4%	35.1%	38.5%	40.3%	39.4%	24.9%	41.9%	44.1%
Pharmaceuticals	54%	63.5%	61.2%	56.6%	50.6%	64.9%	61.5%	59.7%	60.6%	75.1%	58.1%	55.9%
EBIT Contribution in %												
Crop protection products	53%	58.4%	48.8%	43.5%	48.5%	46.1%	36.7%	45.6%	43.6%	13.6%	39.3%	48.5%
Pharmaceuticals	47%	41.6%	51.2%	56.5%	51.5%	53.9%	63.3%	54.4%	56.4%	86.4%	60.7%	51.5%

Source: Company, BP Equities Research



Profit & Loss A/c (Consolidated)

YE March (INR. mn)	FY18	FY19	FY20	FY21	FY22E	FY23E
Revenue	12,961	15,896	15,073	17,204	19,467	22,345
Growth %	27.8%	22.6%	-5.2%	14.1%	13.2%	14.8%
Total Revenue	12,961	15,896	15,073	17,204	19,467	22,345
Less:						
Raw Material Consumed	6,989	8,538	7,763	9,084	10,227	11,621
Employee Cost	1,281	1,504	1,566	1,643	1,808	1,988
Other Expenses	2,274	2,873	3,012	3,249	3,676	4,219
Total Operating Expenditure	10,544	12,915	12,341	13,976	15,710	17,829
EBITDA	2,417	2,981	2,732	3,229	3,757	4,516
Growth %	22.6%	23.3%	-8.4%	18.2%	16.3%	20.2%
Less: Depreciation	856	929	825	852	966	1,041
EBIT	1,561	2,052	1,907	2,377	2,791	3,474
Growth %	21.9%	31.4%	-7.1%	24.6%	17.4%	24.5%
Interest Paid	491	584	524	362	341	320
Non-operating Income	45	23	37	50	40	40
Extraordinary Income	0	0	-154	0	0	0
Profit Before tax	1,115	1,491	1,266	2,064	2,490	3,195
Tax	343	460	421	733	627	805
Net Profit	772	1,031	844	1,332	1,863	2,390
Adjusted Profit	772	1,031	998	1,332	1,863	2,390
Reported Diluted EPS Rs	6.3	8.4	6.8	10.8	15.1	19.4
Growth %	9.3%	33.5%	-18.1%	57.7%	39.9%	28.3%
Adjusted Diluted EPS Rs	6.3	8.4	8.1	10.8	15.1	19.4
Growth %	9.3%	33.5%	-3.1%	33.4%	39.9%	28.3%

Source: Company, BP Equities Research

Cash Flows (Consolidated)

YE March (INR. Mn)	FY18	FY19	FY20	FY21	FY22E	FY23E
PAT	772.3	1,030.8	844.4	1,331.5	1,862.6	2,389.6
(Less)/Add: Extraordinary Income/Expense	0.0	0.0	154.0	0.0	0.0	0.0
Less: Non Operating Income	(44.6)	(22.6)	(37.0)	(49.8)	(40.0)	(40.0)
Add: Depreciation	855.9	928.8	824.6	852.4	965.8	1,041.4
Add: Interest Paid	491.2	584.3	524.2	362.0	340.9	319.8
Tax Adjustment	0.0	0.0	0.0	0.0	0.0	0.0
Operating Profit before Working Capital Changes	2,074.7	2,521.2	2,310.2	2,496.1	3,129.3	3,710.8
(Inc)/Dec in Current Assets	(890.6)	(747.1)	353.4	(1,199.1)	(755.8)	(961.0)
Inc/(Dec) in Current Liabilities	989.6	181.3	380.9	101.2	1,133.4	766.7
Changes in Inventory	(394.7)	(611.8)	517.7	457.6	(350.8)	(446.0)
Net Cash Generated From Operations	1,779.0	1,343.6	3,562.1	1,855.8	3,156.2	3,070.4
Cash Flow from Investing Activities						
(Inc)/Dec in Fixed Assets	(508.6)	(1,719.5)	(1,046.4)	(625.8)	(1,500.0)	(1,000.0)
(Inc)/Dec in Capital Work In Progress	(535.7)	424.3	(790.2)	(932.8)	0.0	0.0
(Inc)/Dec in Investment (Strategic)	(392.2)	17.2	(560.0)	842.8	(88.4)	(112.4)
(Inc)/Dec in Investment (Others)	10.2	15.8	3.4	0.8	0.0	0.0
Add: Non Operating Income	44.6	22.6	37.0	49.8	40.0	40.0
(Inc)/Dec in Intangible Assets	(15.5)	(32.4)	(31.1)	(1.4)	0.0	0.0
Net Cash Flow from/(used in) Investing Activities	(1,397.2)	(1,272.0)	(2,387.3)	(666.5)	(1,548.4)	(1,072.4)
Cash Flow from Financing Activities						
Inc/(Dec) in Total Loans	345.2	723.3	63.9	(932.3)	(300.0)	(300.0)
Inc/(Dec) in Reserves & Surplus	19.7	(96.7)	(93.5)	83.9	0.0	0.0
Inc/(Dec) in Equity	0.0	82.2	0.0	0.0	0.0	0.0
Dividend Paid	(148.0)	(148.0)	(148.0)	(246.6)	(345.0)	0.0
Less: Interest Paid	(491.2)	(584.3)	(524.2)	(362.0)	(340.9)	(319.8)
Adjustments	0.0	(3.0)	(0.8)	(0.0)	0.0	(0.0)
Exceptional Item	0.0	0.0	(154.0)	0.0	0.0	0.0
Net Cash Flow from Financing Activities	(274.2)	(26.5)	(856.5)	(1,457.0)	(985.8)	(619.8)
Net Inc/Dec in cash equivalents	107.6	45.2	318.3	(267.6)	621.9	1,378.2
Opening Balance	164.7	272.2	317.4	635.7	368.1	990.0
Closing Balance Cash and Cash Equivalents	272.2	317.4	635.7	368.1	990.0	2,368.2

Source: Company, BP Equities Research



Balance Sheet (Consolidated)						
YE March(Rs. mn)	FY18	FY19	FY20	FY21	FY22E	FY23E
Liabilities						
Equity Capital	164	247	247	247	247	247
Reserves & Surplus	6,530	7,316	7,919	9,087	10,605	12,995
Equity	6,694	7,562	8,165	9,334	10,852	13,241
Net Worth	6,694	7,562	8,165	9,334	10,852	13,241
Minority Interest						
Net Deferred tax liability/(Asset)	152	616	1,068	602	602	602
Total Loans	5,738	5,997	5,609	5,143	4,843	4,543
Capital Employed	12,584	14,175	14,842	15,079	16,296	18,386
Assets						
Gross Block	7,883	9,603	10,649	11,275	12,775	13,775
Less: Depreciation	1,547	2,473	3,297	4,149	5,115	6,157
Net Block	6,336	7,130	7,352	7,126	7,660	7,618
Capital WIP	1,155	731	1,521	2,454	2,454	2,454
Investments	972	955	1,515	672	761	873
Others - A	26	10	7	6	6	6
Current Assets						
Inventories	3,031	3,642	3,125	2,667	3,018	3,464
Sundry Debtors	2,874	3,497	3,404	4,855	5,494	6,306
Cash and Bank Balance	272	317	636	368	990	2,368
Current Investments	0	0	0	0	0	0
Loans and Advances	1,139	1,324	1,042	891	1,008	1,157
Other Current Assets	145	84	105	5	5	5
Total Current Assets	7,461	8,865	8,312	8,786	10,514	13,300
Less: Current Liabilities & Provisions						
Sundry Creditors	1,645	1,610	2,012	2,296	3,198	3,671
Provisions	605	610	608	394	446	512
Other Current Liabilities	1,139	1,351	1,333	1,363	1,542	1,770
Total Current Liabilities & Provisions	3,390	3,571	3,952	4,054	5,187	5,954
Capital Applied	12,584	14,175	14,842	15,079	16,296	18,386

Source: Company, BP Equities Research

Key Ratios (Consolidated)						
YE March (INR. mn)	FY18	FY19	FY20	FY21	FY22E	FY23E
Key Operating Ratios						
EBITDA Margin (%)	18.7%	18.8%	18.1%	18.8%	19.3%	20.2%
Tax / PBT (%)	30.7%	30.9%	33.3%	35.5%	25.2%	25.2%
Net Profit Margin (%)	6.0%	6.5%	5.6%	7.7%	9.6%	10.7%
RoE (%)	12.1%	14.5%	12.7%	15.2%	18.5%	19.8%
RoCE (%)	12.3%	14.2%	14.3%	14.6%	17.2%	19.7%
Current Ratio (x)	2.2x	2.5x	2.1x	2.2x	2.0x	2.2x
Dividend Payout (%)	19.2%	14.4%	17.5%	18.5%	18.5%	18.5%
Book Value Per Share (Rs.)	54.3	61.3	66.2	75.7	88.0	107.4
Financial Leverage Ratios						
Debt/ Equity (x)	0.9x	0.8x	0.7x	0.6x	0.4x	0.3x
Interest Coverage (x)	4.9x	5.1x	5.2x	8.9x	11.0x	14.1x
Growth Indicators %						
Growth in Net Block (%)	(5.2%)	12.5%	3.1%	(3.1%)	7.5%	(0.5%)
Sales Growth (%)	27.8%	22.6%	(5.2%)	14.1%	13.2%	14.8%
EBITDA Growth (%)	22.6%	23.3%	(8.4%)	18.2%	16.3%	20.2%
Net Profit Growth (%)	9.3%	33.5%	(18.1%)	57.7%	39.9%	28.3%
Diluted EPS Growth (%)	9.3%	33.5%	(18.1%)	57.7%	39.9%	28.3%
Turnover Ratios						
Debtors Days	81	80	82	103	103	103
Creditors Days	57	46	59	60	60	60
Inventory Days	85	84	76	57	57	57

Source: Company, BP Equities Research

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