

Weak Q4; Challenging outlook

Hikal posted revenue of INR 5,024mn with 5.7% YoY de-growth which was 2.5% below our estimate of INR 5,154mn due to weak performance from the crop protection segment. On segmental performance: The crop protection segment de-grew by 17% (YoY) to INR 1,944mn due to raw material availability challenges for some of key products. Pharmaceutical segment revenue saw a muted growth of 3% and stood at INR 3,079mn on account of slower offtake by several customers due to the higher price of products led by rising input costs. Management expects raw material challenges to continue in the next few months and is working with their suppliers and customers to mitigate the price fluctuations. Higher operational cost combined with drop in revenues resulted in a 838bps decline in the EBITDA margin to 12.1%, which was 526bps below our estimates. EBIT margin of the Crop protection segment declined by 1,437bps (YoY) with 39% (vs 44% in Q4FY21) contribution to overall EBIT. The pharmaceutical segment's EBIT margin was contracted by 738ps with 61% contribution to overall EBIT. PAT came 52.4% below our estimate at INR 207mn (est INR 435mn) due to weak operational performance. As per management, Capex and new product launch plans remain intact for both divisions. Process development has started for several active ingredients for the multi-year Animal health project with a global innovator and is expected to generate revenue from Q4FY23. The benefit of tailwinds in terms of new opportunities arising from global supply chain disruptions and China plus one strategy is playing out as the company receives new inquiries from global innovator companies in the CDMO (Pharma) business segment. Management expects this segment to be a lead growth driver in the next few years. However, the industry faces strong headwinds due to the inflationary pressures and a sharp rise in input costs, energy and solvents; the management expects growth to be tapered and margins to contract in FY23. The company focuses on passing through increased input costs to its customers. Although, they expect longer lead times given the inflationary pressures even customers are facing.

Valuation & Outlook

We foresee Hikal to post 12% revenue CAGR over FY22-24E, led by the commercialisation of new products and favourable demand in the existing product portfolio for both businesses. We expect a 30bps EBITDA margin decline over FY21-24E due to inflationary cost pressures and longer lead times to pass on RM cost to the customers. With a lower EBITDA growth and increasing depreciation and Interest cost, we expect PAT to grow at 7% CAGR over FY22-24e. Considering the above factors, we revise our estimates and maintain a Hold rating with a target price of INR 298 (earlier INR 426) by valuing at 20x PER on FY24e EPS.

Key Financials

YE March (INR. mn)	FY20	FY21	FY22	FY23E	FY24E
Net Sales	15,073	17,204	19,427	21,307	24,595
Growth %	-5%	14%	13%	10%	15%
EBITDA	2,732	3,229	3,406	3,510	4,238
Growth%	-8%	18%	5%	3%	21%
Net Profit	844	1,331	1,605	1,402	1,839
Growth %	-18%	58%	21%	-13%	31%
Diluted EPS	7	11	13	11	15
Growth %	-18%	58%	21%	-13%	31%

Profitability & Valuation

EBITDA (%)	18.1%	18.8%	17.5%	16.5%	17.2%
NPM (%)	5.6%	7.7%	8.3%	6.6%	7.5%
RoE (%)	12.7%	15.2%	16.0%	12.3%	14.1%
RoCE (%)	14.3%	14.4%	15.1%	13.4%	13.1%
P/E (x)	42.9	27.2	22.6	25.9	19.7
EV/EBITDA (x)	15.1	12.7	12.5	12.1	10.0
Net Debt/ EBITDA (x)	1.8	1.5	1.8	1.8	1.5

Source: Company, BP Equities Research

Stock Rating

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

Sector Outlook

Positive

Stock

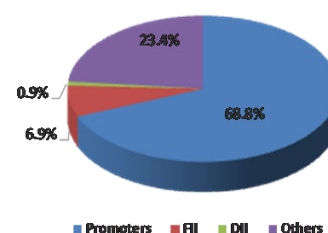
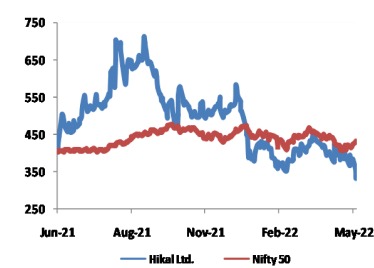
CMP (INR)	294
Target Price (INR)	298
BSE code	524735
NSE Symbol	HIKAL
Bloomberg	HKCI IN
Reuters	HIKA.BO

Key Data

Nifty	16,584
52WeekH/L(INR)	742 / 288
O/s Shares (Mn)	123
Market Cap (INR bn)	36
Face Value (INR)	2

Average volume

3 months	2,81,360
6 months	3,64,950
1 year	5,36,380

Share Holding Pattern (%)**Relative Price Chart****Research Analyst**

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Variance Analysis

YE March (INR. Mn)	Q4 FY22	Q3 FY21	Q-o-Q change %	Q4 FY21	Y-o-Y change %
Net Sales	5,010	5,066	(1.1%)	5,316	(5.8%)
Other Operating Income	14	79		9	
Total Revenue	5,024	5,145	(2.4%)	5,325	(5.7%)
Less:					
Raw Material Cost	2,776	2,618	6.0%	2,797	(0.8%)
Operating & Manufacturing Expenses	1,102	1,067	3.2%	1,012	8.9%
Employee Cost	536	531	1.0%	423	26.8%
Total Expenditure	4,414	4,216	4.7%	4,232	4.3%
EBITDA	610	929	(34.4%)	1,093	(44.2%)
Less: Depreciation	242	247	(1.8%)	216	12.4%
EBIT	368	682	(46.1%)	877	(58.1%)
Less: Interest	80.8	71.8	12.5%	99.7	(19.0%)
Add: Other income	2.7	5.7		28.7	
Exceptional Items	0	0		0	
Profit before tax	290	616	(53.0%)	806	(64.1%)
Adjusted Profit before Tax	290	616	(53.0%)	806	(64.1%)
Less: Total Tax	82	164	(49.8%)	297	(72.2%)
Profit After Tax	207	452	(54.2%)	509	(59.3%)
Minority Interest	0	0		0	
Adjusted Profit After Tax	207	452	(54.2%)	509	(59.3%)
Diluted EPS (Rs.)	1.7	3.7	(54.2%)	4.1	(59.3%)
Adjusted Diluted EPS	1.7	3.7	(54.2%)	4.1	(59.3%)
Diluted No of Share (mn)	123	123		123	
Margin Analysis %			Change in bps		Change in bps
Gross Margin %	44.7%	49.1%	-437	47.5%	-272
EBITDA Margin %	12.1%	18.1%	-592	20.5%	-838
EBIT Margin %	7.3%	13.3%	-594	16.5%	-915
NPM %	4.1%	8.8%	-466	9.6%	-544
Effective Tax Rate %	28.5%	26.6%	182	36.8%	-837

Source: Company, BP Equities Research

Revenue came below our estimate on account of due to weak performance from the crop protection segment

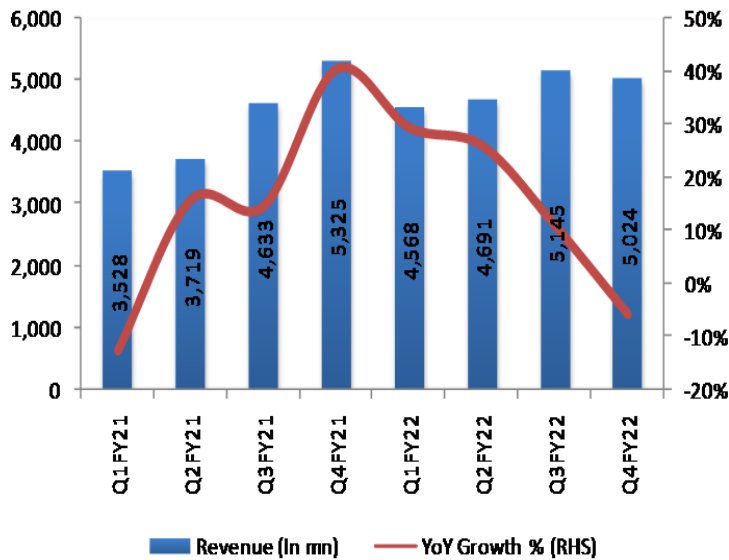
PAT came 52.4% below our estimate at INR 207mn (est INR 435mn) due to weak operational performance

Higher operational cost combined with declined revenues resulted in a 838bps decline in the EBITDA margin to 12.1%, which was 526bps below our estimates

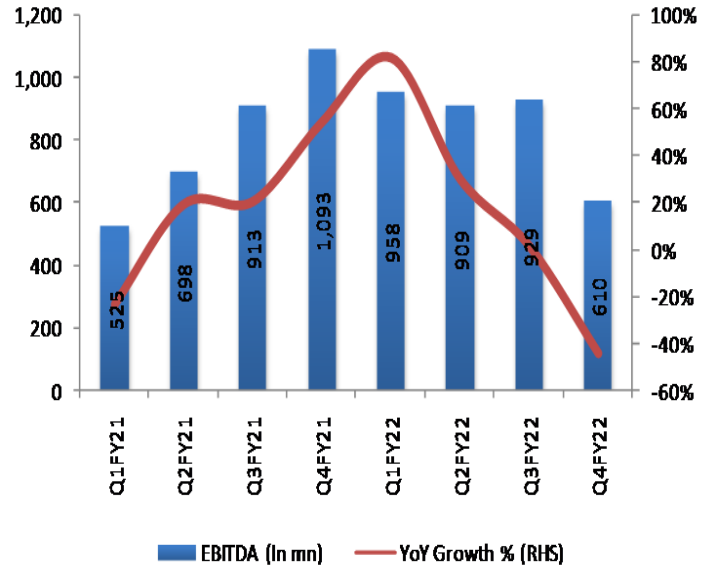
Hikal Ltd.

Result Update Q4FY22

Revenue de-grew by 5.7% YoY

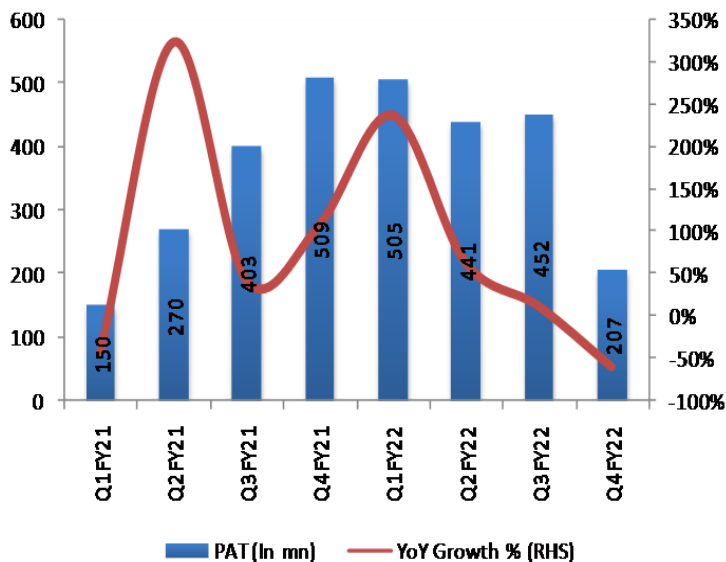


EBITDA declined by 44.2% YoY

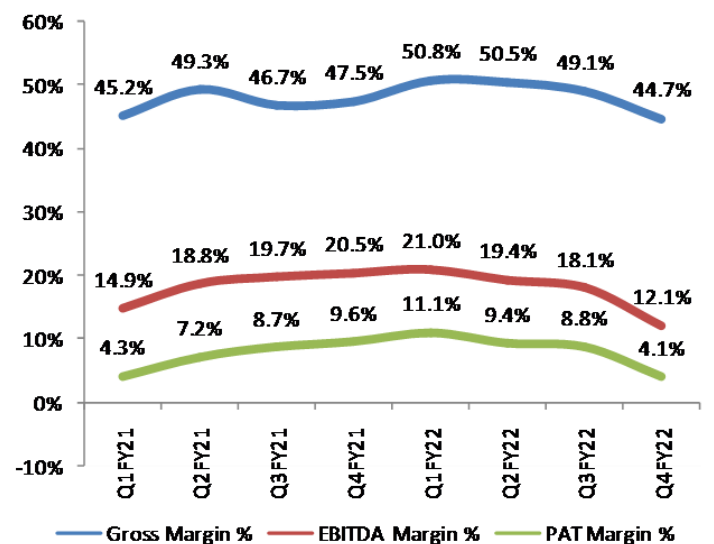


Source: Company, BP Equities Research

PAT dropped by 59.3% YoY



Gross / EBITDA / PAT margin trend



Source: Company, BP Equities Research

Segment Wise Performance of last 12 Quarters

	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Revenues												
Crop protection products	,993	1,128	1,556	1,526	1,391	926	1,943	2,348	1,827	1,895	2,464	1,944
QoQ Growth %	0%	-43%	38%	-2%	-9%	-33%	110%	21%	-22%	4%	30%	-21%
YoY Growth %	34%	-22%	-2%	-23%	-30%	-18%	25%	54%	31%	105%	27%	-17%
Pharmaceuticals	2,039	2,082	2,484	2,264	2,137	2,793	2,690	2,977	2,741	2,796	2,682	3,079
QoQ Growth %	-21%	2%	19%	-9%	-6%	31%	-4%	11%	-8%	2%	-4%	15%
YoY Growth %	15%	-17%	-1%	-13%	5%	34%	8%	32%	28%	0%	0%	3%
EBIT												
Crop protection products	268	213	237	278	168	78	308	478	318	341	376	116
QoQ Growth %	-11%	-20%	11%	17%	-39%	-53%	293%	55%	-33%	7%	10%	-69%
YoY Growth %	8%	-39%	-25%	-8%	-37%	-63%	30%	72%	89%	335%	22%	-76%
Pharmaceuticals	284	250	410	332	218	497	477	507	481	375	357	297
QoQ Growth %	-27%	-12%	64%	-19%	-34%	128%	-4%	6%	-5%	-22%	-5%	-17%
YoY Growth %	30%	0%	23%	-15%	-23%	99%	16%	53%	121%	-25%	-25%	-41%
EBIT Margin %												
Crop protection products	13%	19%	15%	18.2%	12.1%	8.5%	15.9%	20.3%	17.4%	18.0%	15.2%	6.0%
Pharmaceuticals	14%	12%	16%	14.6%	10.2%	17.8%	17.7%	17.0%	17.6%	13.4%	13.3%	9.6%
Revenue Contribution in %												
Crop protection products	49%	35%	39%	40%	39%	25%	42%	44%	40%	40%	48%	39%
Pharmaceuticals	51%	65%	61%	60%	61%	75%	58%	56%	60%	60%	52%	61%
EBIT Contribution in %												
Crop protection products	49%	46%	37%	46%	44%	14%	39%	49%	40%	48%	51%	28%
Pharmaceuticals	51%	54%	63%	54%	56%	86%	61%	51%	60%	52%	49%	72%
ROCE% Trend												
Crop protection	33%	27%	24%	23%	21%	16%	15%	16%	23%	25%	18%	18%
Pharmaceuticals	15%	15%	15%	15%	15%	15%	17%	15%	20%	18%	13%	15%

Source: Company, BP Equities Research

Hikal Ltd.

Result Update Q4FY22

Profit & Loss A/c (Consolidated)

YE March (INR. mn)	FY19	FY20	FY21	FY22	FY23E	FY24E
Revenue	15,896	15,073	17,204	19,427	21,307	24,595
Growth %	22.6%	-5.2%	14.1%	12.9%	9.7%	15.4%
Total Revenue	15,896	15,073	17,204	19,427	21,307	24,595
Less:						
Raw Material Consumed	8,538	7,763	9,084	9,964	11,146	12,803
Employee Cost	1,504	1,566	1,643	2,034	2,237	2,461
Other Expenses	2,873	3,012	3,249	4,024	4,413	5,094
Total Operating Expenditure	12,915	12,341	13,976	16,022	17,797	20,358
EBITDA	2,981	2,732	3,229	3,406	3,510	4,238
Growth %	23.3%	-8.4%	18.2%	5.5%	3.1%	20.7%
Less: Depreciation	929	825	852	957	1,136	1,279
EBIT	2,052	1,907	2,376	2,449	2,374	2,959
Growth %	31.4%	-7.1%	24.6%	3.1%	-3.1%	24.6%
Interest Paid	584	524	362	312	540	540
Non-operating Income	23	37	50	49	40	40
Extraordinary Income	0	-154	0	0	0	0
Profit Before tax	1,491	1,266	2,064	2,186	1,874	2,459
Tax	460	421	733	581	472	620
Net Profit	1,031	844	1,331	1,605	1,402	1,839
Adjusted Profit	1,031	998	1,331	1,605	1,402	1,839
Reported Diluted EPS Rs	8.4	6.8	10.8	13.0	11.4	14.9
Growth %	33.5%	-18.1%	57.7%	20.6%	-12.6%	31.2%
Adjusted Diluted EPS Rs	8.4	8.1	10.8	13.0	11.4	14.9
Growth %	33.5%	-3.1%	33.4%	20.6%	-12.6%	31.2%

Source: Company, BP Equities Research

Cash Flows (Consolidated)

YE March (INR. Mn)	FY19	FY20	FY21	FY22	FY23E	FY24E
PAT	1,031	844	1,331	1,605	1,402	1,839
(Less)/Add: Extraordinary Income/Expense	0	154	0	0	0	0
Less: Non Operating Income	(23)	(37)	(50)	(49)	(40)	(40)
Add: Depreciation	929	825	852	957	1,136	1,279
Add: Interest Paid	584	524	362	312	540	540
Tax Adjustment	0	0	0	0	0	0
Operating Profit before Working Capital Changes	2,521	2,310	2,496	2,825	3,038	3,618
(Inc)/Dec in Current Assets	(747)	353	(1,664)	457	(548)	(959)
Inc/(Dec) in Current Liabilities	181	381	567	(704)	950	735
Changes in Inventory	(612)	518	458	(623)	(318)	(557)
Net Cash Generated From Operations	1,344	3,562	1,856	1,955	3,121	2,838
Cash Flow from Investing Activities						
(Inc)/Dec in Fixed Assets	(1,720)	(1,046)	(626)	(2,082)	(2,500)	(2,000)
(Inc)/Dec in Capital Work In Progress	424	(790)	(933)	(398)	0	0
(Inc)/Dec in Investment (Strategic)	17	(560)	283	(251)	(143)	(251)
(Inc)/Dec in Investment (Others)	16	3	1	(0)	0	0
Add: Non Operating Income	23	37	50	49	40	40
(Inc)/Dec in Intangible Assets	(32)	(31)	(1)	89	0	0
Net Cash Flow from/(used in) Investing Activities	(1,272)	(2,387)	(1,226)	(2,593)	(2,603)	(2,211)
Cash Flow from Financing Activities						
Inc/(Dec) in Total Loans	723	64	(373)	1,333	2,250	0
Inc/(Dec) in Reserves & Surplus	(97)	(93)	84	(62)	0	0
Inc/(Dec) in Equity	82	0	0	0	0	0
Dividend Paid	(148)	(148)	(247)	(197)	0	0
Less: Interest Paid	(584)	(524)	(362)	(312)	(540)	(540)
Adjustments	(3)	(1)	(0)	(0)	0	0
Exceptional Item	0	(154)	0	0	0	0
Net Cash Flow from Financing Activities	(26)	(856)	(897)	761	1,710	(540)
Net Inc/Dec in cash equivalents	45	318	(268)	123	2,228	87
Opening Balance	272	317	636	368	491	2,719
Closing Balance Cash and Cash Equivalents	317	636	368	491	2,719	2,806

Source: Company, BP Equities Research



Balance Sheet (Consolidated)						
YE March(Rs. mn)	FY19	FY20	FY21	FY22	FY23E	FY24E
Liabilities						
Equity Capital	247	247	247	247	247	247
Reserves & Surplus	7,316	7,919	9,087	10,433	11,835	13,675
Equity	7,562	8,165	9,334	10,680	12,082	13,921
Net Worth	7,562	8,165	9,334	10,680	12,082	13,921
Minority Interest						
Net Deferred tax liability/(Asset)	616	1,068	1,161	893	893	893
Total Loans	5,997	5,609	5,143	6,744	8,994	8,994
Capital Employed	14,175	14,842	15,638	18,317	21,969	23,808
Assets						
Gross Block	9,603	10,649	11,275	13,357	15,857	17,857
Less: Depreciation	2,473	3,297	4,149	5,106	6,242	7,521
Net Block	7,130	7,352	7,126	8,250	9,615	10,336
Capital WIP	731	1,521	2,454	2,852	2,852	2,852
Investments	955	1,515	1,232	1,482	1,626	1,877
Others - A	10	7	6	6	6	6
Current Assets						
Inventories	3,642	3,125	2,667	3,290	3,608	4,165
Sundry Debtors	3,497	3,404	4,855	4,377	4,801	5,542
Cash and Bank Balance	317	636	368	491	2,719	2,806
Current Investments	0	0	0	0	0	0
Loans and Advances	1,324	1,042	1,238	1,282	1,406	1,623
Other Current Assets	84	105	123	100	101	101
Total Current Assets	8,865	8,312	9,251	9,540	12,634	14,237
Less: Current Liabilities & Provisions						
Sundry Creditors	1,610	2,012	2,296	2,491	3,312	3,823
Provisions	610	608	736	31	34	40
Other Current Liabilities	1,351	1,333	1,486	1,292	1,417	1,636
Total Current Liabilities & Provisions	3,571	3,952	4,519	3,814	4,764	5,499
Capital Applied	14,175	14,842	15,638	18,317	21,969	23,808

Source: Company, BP Equities Research

Key Ratios (Consolidated)						
YE March (INR. mn)	FY19	FY20	FY21	FY22	FY23E	FY24E
Key Operating Ratios						
EBITDA Margin (%)	18.8%	18.1%	18.8%	17.5%	16.5%	17.2%
Tax / PBT (%)	30.9%	33.3%	35.5%	26.6%	25.2%	25.2%
Net Profit Margin (%)	6.5%	5.6%	7.7%	8.3%	6.6%	7.5%
RoE (%)	14.5%	12.7%	15.2%	16.0%	12.3%	14.1%
RoCE (%)	14.2%	14.3%	14.4%	15.1%	13.4%	13.1%
Current Ratio (x)	2.5x	2.1x	2.0x	2.5x	2.7x	2.6x
Dividend Payout (%)	14.4%	17.5%	18.5%	12.3%	12.3%	12.3%
Book Value Per Share (Rs.)	61.3	66.2	75.7	86.6	98.0	112.9

Financial Leverage Ratios						
Debt/ Equity (x)	0.8x	0.7x	0.6x	0.6x	0.7x	0.6x
Interest Coverage (x)	5.1x	5.2x	8.9x	10.9x	6.5x	7.9x

Growth Indicators %						
Growth in Net Block (%)	12.5%	3.1%	(3.1%)	15.8%	16.5%	7.5%
Sales Growth (%)	22.6%	(5.2%)	14.1%	12.9%	9.7%	15.4%
EBITDA Growth (%)	23.3%	(8.4%)	18.2%	5.5%	3.1%	20.7%
Net Profit Growth (%)	33.5%	(18.1%)	57.7%	20.6%	(12.6%)	31.2%
Diluted EPS Growth (%)	33.5%	(18.1%)	57.7%	20.6%	(12.6%)	31.2%

Turnover Ratios						
Debtors Days	80	82	103	82	82	82
Creditors Days	46	59	60	57	57	57
Inventory Days	84	76	57	62	62	62

Source: Company, BP Equities Research



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