

Hikal Ltd.**₹149****Always Caring...!!!****Accumulate**

Jan 25, 2019

Company Background

Hikal was incorporated in 1988, with equity participation of Hiremaths, Kalyani Group, and subsequently Sumitomo Corporation of Japan. The manufacturing activities started at Mahad in 1991, at Taloja in 1998 and at Panoli in 2000. The company has expanded facilities of its existing products; MCA, PC & MNCB etc. & diversified into the production of metoxuron technical, a wheat herbicide, which is being manufactured for the first time in the country. During 1996, it came with public issue to part finance the expansion project of Thiabendazol. Company has been granted Export House status by the Government of India. It set up a new manufacturing facility near Mumbai in collaboration with Merck & Co Inc, USA, for the manufacture of a post-harvest fungicide. During 2000, the company has acquired an Agrochemical manufacturing site at Panoli, Gujarat from Novartis India Ltd. In 2001, it acquired the R&D Unit and Bulk Drug Manufacturing Facility of Wintac Ltd at Bangalore. In 2004, commissioned a new bulk Active Pharmaceutical Plant with GMP requirements in Bangalore Unit. The Bangalore API Plant approved by USFDA and Australian TGA. In August 2004, it has entered into an agreement with Bayer CropScience AG to manufacture & supply Agro biochemical intermediates and has set up a plant to manufacture this products in Mahad Plant.

Key Highlights

- ➔ Total revenue for FY18 was ₹ 13,001 million, of which ₹ 7,528 million with 57.9% from Pharma and ₹ 5,473 with 42.1% from Agrochemicals segments. Pharmaceutical business grew by 23.3% and Crop Protection business grew by 29.3% as compared to the previous year. Introduction of new products, addition of new customers & increased market demand for existing products were drivers for this growth.
- ➔ Exports for the year of ₹ 9,115 million (70% of total sales) as compared to ₹ 6,612 million (65% of total sales) in the previous year.
- ➔ Hikal has the process of expanding its Panoli facility for API manufacturing. This will help de-risk its Bengaluru plant for manufacturing APIs. And also plan to treat Animal Health business as a separate unit in future.

Key Financials

Year Ended 31 st	Mar 16	Mar 17	Mar 18
Revenue (INR mn)	9,373.1	10,374.0	13,045.5
Rev. growth (%)	6.62	10.68	25.75
EBITDA (INR mn)	1,827.8	2,006.3	2,462.1
Net profit (INR mn)	413.2	706.7	772.3
Shares outstanding (mn)	82.2	82.2	82.2
EPS (INR)	4.8	8.6	9.4
EPS growth (%)	2.12	78.42	9.30
P/E (x)	16.21	16.49	14.57
RONW (%)	9.32	13.28	12.12
ROCE (%)	11.78	12.00	12.66

Nishant Chopra

nishantc@indiratrade.com

Info Codes

Reuters	: HIKA.BO
Bloomberg	: HKCI IN
NSE	: HIKAL
BSE	: 524735

Market Data

52 Wk Range (₹)	: 130/207
Shares in Issue (mn)	: 82.2
Market. Cap (bn)	: 18.47
BSE 2 Wk Avg Vol	: 35000

Share Holding Pattern (%)

Promoters Holding	: 68.77
Public & Others	: 25.28
Corporate Holding	: 00.00
Foreign Institution	: 04.17
Institutions	: 01.78

Investment Theme

The Indian pharmaceutical sector is estimated to account for 3.1 to 3.6% of the global pharmaceutical industry in value terms and 10% in volume terms. It is expected to grow to \$100 billion by 2025. Hikal's contract development business was up by 14% in terms of value growth. Long-term contract manufacturing agreement with a leading European innovator to exclusively manufacture molecules grew in terms of volume, based on the forecast provided by the client, is expected to grow further in the next year as well. It manufactures two large volume molecules under CDMO, a neuropathic pain reliever & an anti-cholesterol molecule exclusively for a leading US-based innovator company. The trend is expected to continue in the next year also. It added several new biotech and virtual companies as clients for the development of early stage molecules.

Best Outcome for Every Time...!!!

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 16	Mar 17	% Chg	Mar 18	% Chg
Net Operating Income	9,256.5	10,139.4	9.5	12,960.9	27.8
Other Income	18.4	34.4	87.0	44.6	29.7
Change in Stocks	(164.9)	(145.5)	(11.8)	163.4	(212.3)
Fuel Charges	4,477.7	4,948.3	10.5	7,153.2	44.6
Employee Exp.	1,096.5	1,166.9	6.4	1,280.6	9.7
Indirect Taxes	98.2	200.2	103.9	40.0	(80.0)
Other Exp.	1,609.9	1,706.5	6.0	2,233.2	30.9
Operating Exp.	7,282.3	8,021.9	10.2	10,707.0	33.5
Operating Profit	1,827.7	2,006.4	9.8	2,461.9	22.7
Total Interest	621.8	482.9	(22.3)	491.0	1.7
Gross Profit	1,205.9	1,523.5	26.3	1,970.9	29.4
Net Dep.	672.8	691.4	2.8	855.9	23.8
Total Taxation	119.9	125.4	4.6	342.7	173.3
Net Profit/Loss	413.2	706.7	71.0	772.3	9.3

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 15	Mar 16	Mar 17	Mar 18
SOURCES OF FUNDS	10,923.2	10,800.7	12,171.4	13,201.4
Equity Share capital	164.4	164.4	164.4	164.4
Equity Application Money	0.0	0.0	0.0	0.0
Equity Share Warrants	0.0	0.0	0.0	0.0
Reserves & Surplus	5,170.3	5,484.6	5,885.5	6,529.6
Secured Loans	4,118.9	4,685.5	5,503.9	5,737.9
Unsecured Loans	1,469.6	466.2	617.6	769.5
USES OF FUNDS	10,923.2	10,800.7	12,171.4	13,201.4
Gross Block	10,960.4	11,471.5	7,374.7	7,883.3
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	4,566.9	5,239.7	691.4	1,547.3
Net Block	6,393.5	6,231.8	6,683.3	6,336.0
Capital Work in Progress	616.6	661.3	627.6	1,178.8
Investments	31.2	31.2	36.3	26.0
Current Assets	5,008.5	4,671.9	5,765.4	6,899.6
Less : Current Liabilities	1,720.9	1,659.8	1,623.4	2,215.8
Total Net Current Assets	3,287.6	3,012.1	4,142.0	4,683.8
Misc. Expenses not writtenoff	594.3	864.3	682.2	976.8
NOTE				
Book Value of Unquoted Investments	31.3	31.1	34.4	24.4
Market Value of Quoted Investments	0.0	1.9	1.9	1.7
Contingent Liabilities	821.2	1,119.7	164.2	164.2
Dividend (%)	50.0	50.0	60.0	60.0

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Dec 17	Mar 18	Jun 18	Sep 18
Net Sales	3,466.0	3,834.8	3,217.9	3,890.0
Cost Of Sales	2,837.7	3,190.4	2,649.6	3,196.4
Operating Profit	628.3	644.4	568.3	693.6
Other Income	49.0	86.3	51.8	61.5
Adjusted PBDIT	677.3	730.7	620.1	755.1
Financial Expenses	119.0	124.7	160.1	164.2
Depreciation	214.7	214.1	225.8	235.5
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	343.6	391.9	234.2	355.4
Tax Charges	111.2	138.5	74.9	111.1
Reported Profit	232.4	253.4	159.3	244.3
Extra Ordinary Items	0.0	0.0	0.0	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Adjusted Net Profit	232.4	253.4	159.3	244.3

52 Week Index Relative Percentage Appreciation



Hikal vs SENSEX

Risks Associated

- ➔ Unexpected price increase of several key raw materials imported from China due to shutdowns of factories on environmental concerns. This has created severe shortages of basic raw materials, raising costs and impacting the production of some of its major APIs and AIs.
- ➔ For FY18, API business registered a sales increase is marginal on year-to-year basis. This was lower than its budgeted sales as some of the key commercial APIs were not pick up in terms of volumes due to pricing pressures.

Scope of Growth

- ➔ During the FY18, it commercialized a new insecticide which belongs to a new neonicotinoid class. This product is used to control wide range of insects on rape, maize, fruits and vegetables and pome fruit. Hikal expect the volume of this product to increase substantially this year due to the ban on some of the competitor products in the European Union.
- ➔ On the specialty chemicals side, It working on the development of two products with wide usage in the chemical industry. These products have a wide range of applications including that of an antiseptic disinfectant. Company expect to commercialize both these products in the near future.
- ➔ Cost Improvement projects on current plant processes are being implemented to reduce raw material consumption, hence improve margins.
- ➔ In March 2018, the Drug Controller General of India announced its plans to start a single window facility to provide consent, approvals and other information. The move is good for Pharma sector.
- ➔ The Government of India is planning to set up an electronic platform to regulate online pharmacies under a new policy, in order to stop any misuse due to easy availability.

In a Nutshell

Hikal established in 1988, offers solutions across the life sciences value chain. It provide world class active ingredients, intermediates and R&D services to global pharmaceuticals, animal health, biotech, crop protection and specialty chemicals companies. It has five manufacturing facilities in India at Maharashtra two, Gujarat one, Karnataka one and a Research & Technology center at Pune. Comapny has one subsidiary name called; Acoris Research Ltd with 100% holding. For FY18, generic API business registered a sales increase was marginal on a year-to-year basis. This was lower than its budgeted sales as some of the key commercial APIs were not pick up in terms of volumes due to pricing pressures in the final market and availability of raw materials from China. It plan to treat Animal Health business as a separate unit as it requires a dedicated and focused effort. Under an exclusive manufacturing contract with a leading US based veterinary drug innovator, company manufacture a non-antibiotic veterinary drug API. It had invested significantly last year to expand the capacity of this product. Crop Protection division achieved a good growth of 29.3% for FY18. Division's sales comes from contract manufacturing. Its focused products are herbicides, Fungicides and insecticides. During the FY18, sales were improved by 25.73% to ₹13,000.9 million, operating profit rose by 22.71% to ₹ 2,462.1 million and finally the net profit also increased by 9.28% to ₹ 772.3 million. Exports also improved by 36.87% to ₹ 9,115 million for FY18 as compared to the previous year. This export value is 70% of the total sales of FY18. During the year, it invested on capacity for one of the large product to cater to the demand across the globe. This will give revenues in FY19.

Indira Group Offices

Registered Office : 5, Indira House, 3rd Floor, Topiwala Lane, Lamington Road, Mumbai – 400007

Tel : 022-66224202 **Fax** : 022-66224201 **Email** : ie@indiratrade.com

Administrative Office : 204-205 “Amardarshan” 28/2 Old Palasia, Indore (MP) 452018

Tel : 0731-4097170 **Fax** : 0731-4215999 **Email** : customercare@indiratrade.com

Institutional Dealing Unit : 5, Indira House, 3rd Floor, Topiwala Lane, Lamington Road, Mumbai – 400007

Tel : 022-66224209 **Fax** : 022-66224201 **Email** : ie@indiratrade.com

Rating Interpretation

Buy : Expected to appreciate 20% or more over 12-months

Accumulate : Expected to appreciate 10% to 20% over 12-months

Trade Buy : Expected to appreciate more than 10% over 45-days

Reduce : Expected to depreciate up to 10% over 12-months

Sell : Expected to depreciate 10% or more over 12-months

Trade Sell : Expected to depreciate more than 10% over 45-days

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