

Hikal Limited

COMPANY SNAPSHOT					
CMP	Initiation Price	Target	Potential Upside	Recommendation	MCap (Rsbn)
Rs175	Rs143	Rs216	24%	BUY	Rs21.5

About the Company:

Hikal Limited (Hikal) was incorporated in 1988 as a private limited company by the Hiremath family and Surajmukhi Investments & Finance Limited, a wholly owned subsidiary of Kalyani Steels Limited as the shareholders. Hikal being the preferred partner of choice of leading pharmaceutical and agrochemical companies is engaged in R&D, manufacturing and marketing of fine chemicals for different customers across the above industries. It collaborates with innovator companies and offers solutions in Contract Research, Custom Synthesis and Custom Manufacturing. It has the edge of being one of the few companies globally that have a hybrid model catering to diversified industries.

Results Declared:

- For the quarter under review, the Pharma segment has shown a revenue growth of 20.7% at Rs2,592mn as compared to Rs2,147mn in the corresponding period last year while the segment of crop protection has shown an uptick of 12.8% in the revenues earned at Rs1,984.mn as compared to Rs1,758.
- The net sales for the quarter grew by 17.2% to Rs4,575mn as compared to Rs3,908mn in the same quarter last year
- The EBITDA margins for the quarter under review stood at 18.3%. This has been more or less flat and in the same range since last 6-8 quarters in a row. There could be some concerns related to the cost of raw material which has inched up to 58% from earlier 55% (as a percent to sales).
- The net profit grew by 31.6% to Rs334mn as against Rs253mn in the comparative quarter. The company has shifted focus towards value products rather than volume products which explains the growth in profits.
- The EPS stands at Rs2.7
- For the full year, the company has clocked revenue growth of 22.3% with sales at Rs15,896mn in FY19 as compared to Rs13,001mn in FY18. While at the same time, the net profit breaches a milestone of Rs1000mn with profits at Rs1,031mn as compared to Rs772mn in FY18, growth of 33.5%.
- The Board of Directors of the company had declared as an interim dividend of Rs0.6 (30%) of face value of Rs2 per equity share and recommended a final dividend of Rs0.6 (30%) on equity shares for the year ended March 2019, which is subject to approval by shareholders.

Financials:

Result Update (Q4&FY2019)								
Q4&FY19 Result (Rs mn)	Mar-19	Mar-18	y-o-y	Dec-18	q-o-q	FY19	FY18	y-o-y
Total Revenue	4,575	3,905	17.2%	4,117	11.1%	15,896	13,001	22.3%
EBITDA	840	715	17.6%	783	7.3%	2,981	2,418	23.3%
Other Income	1	16	-	5	-	23	45	(49.3%)
Interest	126	125	1.4%	134	(5.4%)	584	491	19.0%
Depreciation	232	214	8.5%	235	(1.2%)	929	856	8.5%
Exceptional Items	0	0	-	0	-	0	0	-
Tax	148	139	7.0%	126	17.8%	460	343	34.3%
Net Profit	334	253	31.6%	294	13.5%	1,031	772	33.5%

Outlook and Recommendations:

Hikal continues to be a slow compounder for long term investors. The company had crossed a major milestone of **Rs10bn** in sales when we had **reinitiated** a buy on the stock in November 2017 and today in May 2019, the company crosses yet another achievement of **Rs1bn** in net profit. Margins earned by the company are more or less flattish and have been consistent since many years. With a further vision to growth, the Management has highlighted the fact of significant capital investment in both the segments for new capacity which is anticipated to be on stream by next financial year. The company intends to explore opportunities in alternative niche chemistry's like bio catalysis technologies, flow chemistry, etc. The company is also looking at trying to reduce the dependency on Chinese markets and looking at backward integration. The fruits of the current Capex will begin to flow in next 2-3 years. Along with the small developments which the company continues to strive for while maintaining a healthy balance sheet, the future outlook of the company remains positive, and we continue to maintain our target price of Rs216 with a horizon of 12 months.

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