

## Pharma recovering; Crop protection still subdued...

About the stock: Hikal is predominantly a product cum CDMO player that provides intermediates and active ingredients to global pharmaceutical, animal health, crop protection and specialty chemical companies.

- For FY24, Pharma & Crop protection accounted for 62% & 38% of sales, respectively. Pharma business (including animal healthcare) is further divided between APIs and CDMO (65:35).
- In Crop protection, 77% of sales are derived from CDMO while remaining is from proprietary products, specialty chemicals & specialty biocides

### Investment Rationale:

- Q4FY24- Pharma segment does well but Crop protection muted- Revenues grew 15% QoQ to ₹ 514 crore driven by 26% growth in Pharma segment. However, Crop-protection segment de-grew 2% to ₹ 177 crore. EBITDA grew ~46% to ₹ 95 crore and margins stood at 18.4% (390 bps improvement). PAT grew 110% to ₹ 34 crore. EBTDA growth was driven by Pharma business which recorded 16% EBIT margins. EBIT margins on the Crop protection front was lower at 8%.
- Green shoots visible in Pharma; Crop protection recovery by FY25 end- The company registered +18% EBITDA margins in almost 10 quarters, thanks to strong recovery in Pharma segment which was driven by benign raw material prices and good traction in API business which witnessed higher sales from Japan, Latin America and Middle East. The CDMO business was stable. In Crop protection significant channel inventory coupled with global over-capacity led to weakness during the quarter. Management sounded confidence in Pharma business but recovery in Crop protection is expected after few more quarters. Going ahead, in Pharma the API business is expected to maintain the momentum even as the CDMO is expected to achieve normalcy by the end of H1FY25. In the Crop protection however, the recovery for both the proprietary products and CDMO is expected by FY25 end although the company is getting incremental inquiries and RFQs for the prospective customers. The company over the last five years has incurred ~₹ 1100 crore of which ~60% for growth capex and the remaining for maintenance and backward integration. This also includes ₹ 140 crore for an Animal Healthcare contract. Most of this capex is yet to materialise to the fullest extent. We expect over the next two-three years stability in terms of earnings to return with good Pharma traction and return of Crop protection momentum. We expect gradual improvement in margins and ROCE going ahead.

### Rating and Target price

- Our target price is ₹ 365 based on 24x FY26E EPS of ₹ 15.3.

### Key Financial Summary

Key Financials (₹ Crore)	FY20	FY21	FY22	FY23	3 year CAGR (FY20-23)	FY24	FY25E	FY26E	2 year CAGR (FY24-26E)
Revenues	1507.3	1720.4	1942.7	2023.0	10.3	1784.6	1952.6	2197.7	11.0
EBITDA	273.2	322.9	340.6	255.1	-2.3	267.0	344.7	436.1	27.8
EBITDA Margins (%)	18.1	18.8	17.5	12.6		15.0	17.7	19.8	
Adjusted PAT	99.8	133.2	160.5	78.4	-7.7	69.6	124.1	187.9	64.4
EPS (₹)	8.1	10.8	13.0	6.4		5.7	10.1	15.3	
PE (x)	35.4	26.5	22.0	45.0		50.8	28.4	18.8	
EV to EBITDA (x)	15.2	12.8	12.3	16.7		16.2	12.3	9.1	
Price to book (x)	4.3	3.8	3.3	3.1		3.0	2.7	2.4	
RoE (%)	12.2	14.3	15.0	6.9		5.9	9.6	12.8	
RoCE (%)	12.8	15.1	13.6	7.7		7.2	10.3	13.3	

Source: Company, ICICI Direct Research

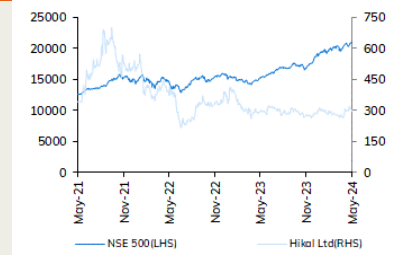
### Particulars

Particular	Amount
Market Cap	₹ 3530 crore
Debt (FY24)	₹ 818 crore
Cash (FY24)	₹ 13 crore
EV	₹ 4335 crore
52 week H/L (₹)	331/250
Equity capital	₹ 24.6 crore
Face value	₹ 2

### Shareholding pattern

(in %)	Jun-23	Sep-23	Dec-23	Mar-24
Promoter	68.8	68.8	68.8	68.8
FII	4.6	4.8	6.1	6.6
DII	2.8	3.1	3.2	3.5
Others	23.9	23.3	21.9	21.1

### Price Chart



### Key risks

- Prolonged weakness in Crop protection stretching beyond FY25
- Lingering quality issues raised by local PCBs and ₹ 17.45 crore pending fine to NGT, the matter is sub judice

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**Exhibit 1: Quarterly Summary**

(₹ Crore)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	YoY (%)	QoQ (%)
Total Operating Income	532.5	456.8	469.1	514.5	502.4	378.8	558.8	540.2	545.3	388.1	434.9	447.6	514.1	-5.7	14.9
Raw Material Expenses	279.7	224.9	232.1	261.8	277.6	226.4	317.7	283.3	279.7	170.5	213.1	206.8	234.3	-16.3	13.3
% of revenue	52.5	49.2	49.5	50.9	55.3	59.8	56.9	52.4	51.3	43.9	49.0	46.2	45.6		
Gross Profit	252.7	231.9	236.9	252.7	224.8	152.4	241.1	257.0	265.6	217.6	221.8	240.8	279.9	5.4	16.2
Gross Profit Margin (%)	47.5	50.8	50.5	49.1	44.7	40.2	43.1	47.6	48.7	56.1	51.0	53.8	54.4	574 bps	64 bps
Employee Expenses	42.3	48.1	48.6	53.1	53.6	43.2	58.1	63.3	57.8	59.6	60.9	61.3	63.8	10.3	4.0
% of revenue	7.9	10.5	10.4	10.3	10.7	11.4	10.4	11.7	10.6	15.4	14.0	13.7	12.4		
Other Expenses	101.2	88.0	97.5	106.7	110.2	86.5	113.3	119.1	119.7	107.7	103.4	114.7	121.6	1.6	6.0
% of revenue	19.0	19.3	20.8	20.7	21.9	22.8	20.3	22.0	22.0	27.7	23.8	25.6	23.7		
Total Expenditure	423.2	361.0	378.2	421.6	441.4	356.0	489.0	465.6	457.3	337.8	377.4	382.8	419.6	-8.2	9.6
% of revenue	79.5	79.0	80.6	81.9	87.9	94.0	87.5	86.2	83.9	87.0	86.8	85.5	81.6		
EBITDA	109.3	95.8	90.9	92.9	61.0	22.8	69.7	74.6	88.0	50.3	57.5	64.8	94.5	7.3	45.9
EBITDA Margins (%)	20.5	21.0	19.4	18.1	12.1	6.0	12.5	13.8	16.1	13.0	13.2	14.5	18.4	223 bps	390 bps
Depreciation	21.6	22.6	24.2	24.7	24.2	26.5	27.4	28.3	26.8	27.7	28.6	29.0	32.3	20.5	11.6
Interest	10.0	8.0	8.0	7.2	8.1	11.3	10.8	13.0	13.0	13.8	13.1	14.2	15.3	17.6	7.2
Other Income	2.9	3.2	0.9	0.6	0.3	3.3	1.3	2.5	0.4	0.9	1.0	0.1	0.5	21.1	666.7
Forex & EO	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
PBT	80.6	68.4	59.6	61.6	29.0	-11.8	32.8	35.8	48.6	9.7	16.8	21.6	47.3	-2.6	119.0
Total Tax	29.7	17.9	15.6	16.4	8.2	-2.9	7.9	9.4	12.6	2.8	4.3	5.5	13.4	6.1	144.1
Tax rate (%)	36.8	26.1	26.1	26.6	28.5	24.7	24.2	26.2	25.9	28.7	25.5	25.3	28.2	231.7	290.0
Adjusted PAT	50.9	50.5	44.1	45.2	20.7	-8.9	24.8	26.4	36.0	6.9	12.5	16.1	34.0	-5.6	110.5
EPS (₹)	4.1	4.1	3.6	3.7	1.7	-0.7	2.0	2.1	2.9	0.6	1.0	1.3	2.8	-5.6	110.5
No. of Equity Shares (Diluted)	61.7	61.7	61.7	61.7	61.7	61.7	61.7	61.7	61.5	61.5	61.5	61.5	61.5		

Source: Company, ICICI Direct Research

## Q4FY24 Results / Conference call highlights

### Pharma-

- API business is showing promising traction on both Q-o-Q and Y-o-Y basis.
- Pipeline includes 8-9 products in development. The management plans to launch 2-3 three products annually.
- In CDMO, the destocking situation continues and the management expects business normalization towards the end of H1 FY '25.
- In CDMO, two products (one for US and one for Europe) are currently in production in the food ingredient segment which are expected to reach their full potential in the next two years.
- Two KSMs in Phase 3 of clinical trials with innovators is progressing well and are expected to reach full potential by 2027.
- Several customer audits have been lined in the rest of 2024.
- Development of multiple APIs for an animal health innovator company- The new multipurpose plant for the animal health business is operational with the completion of four product validations, with several products undergoing validation for registration and eventual commercialization in the quarters to come. The commercial production is likely to commence two-three years down the line.
- Peak revenue potential after 4-5 years could be ₹ 300-400 crore

### Crop protection-

- Global crop protection industry continues to face significant headwinds, including subdued global demand and intense price competition from China on the back of excess capacities in China.
- The construction of the new multipurpose facility at Panoli has been completed, with the plant currently undergoing manufacturing qualifications.
- CDMO business maintains a healthy pipeline of enquiries from both current and prospective customers

### Other aspects -

- Capex for FY25 would be ₹ 100 crore which is primarily the debottlenecking and some infra capex
- The management remains optimistic about the possible benefits panning out to CDMO players on account of US Biosecure Act which is being tabled in the US Senate.

## Financial Tables

Exhibit 3: Profit and loss statement				₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E
<b>Revenues</b>	<b>2,023.0</b>	<b>1,784.6</b>	<b>1,952.6</b>	<b>2,197.7</b>
Growth (%)	4.1	-11.8	9.4	12.6
Raw Material Expenses	1,107.0	824.7	932.9	1,028.2
Employee Expenses	222.4	245.6	271.3	296.1
Other Manufacturing Expenses	438.5	447.3	403.7	437.3
<b>Total Operating Expenditure</b>	<b>1,768.0</b>	<b>1,517.6</b>	<b>1,607.9</b>	<b>1,761.6</b>
<b>EBITDA</b>	<b>255.1</b>	<b>267.0</b>	<b>344.7</b>	<b>436.1</b>
Growth (%)	-25.1	4.7	29.1	26.5
Interest	48.1	56.4	57.3	53.6
Depreciation	109.0	117.6	125.5	135.2
Other Income	7.4	2.5	5.9	6.6
<b>PBT before Exceptional Items</b>	<b>105.4</b>	<b>95.5</b>	<b>167.7</b>	<b>254.0</b>
Less: Forex & Exceptional Items	0.0	0.0	0.0	0.0
<b>PBT</b>	<b>105.4</b>	<b>95.5</b>	<b>167.7</b>	<b>254.0</b>
Total Tax	27.0	25.9	43.6	66.0
PAT before MI	78.4	69.6	124.1	187.9
Minority Interest	0.0	0.0	0.0	0.0
<b>PAT</b>	<b>78.4</b>	<b>69.6</b>	<b>124.1</b>	<b>187.9</b>
<b>Adjusted PAT</b>	<b>78.4</b>	<b>69.6</b>	<b>124.1</b>	<b>187.9</b>
Growth (%)	-51.2	-11.3	78.4	51.5
EPS	6.4	5.7	10.1	15.3
EPS (Adjusted)	6.4	5.7	10.1	15.3

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E
Profit/(Loss) after taxation	76.6	65.2	124.1	187.9
Add: Depreciation & Amortization	109.0	117.6	125.5	135.2
Add: Interest Cost	48.1	56.4	57.3	53.6
Net Increase in Current Assets	22.4	-41.5	-88.0	27.0
Net Increase in Current Liabilities	53.2	-11.8	45.1	41.6
Others	6.02	0.8998	0	0
<b>CF from operating activities</b>	<b>315.3</b>	<b>186.7</b>	<b>264.1</b>	<b>445.3</b>
(Inc)/dec in Fixed Assets	-302.6	-204.2	-100.0	-100.0
(Inc)/dec in Investments	0.6	0.2	0.0	0.0
Others	9.7	30.2	3.2	3.5
<b>CF from investing activities</b>	<b>-292.3</b>	<b>-173.7</b>	<b>-96.8</b>	<b>-96.5</b>
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0
Inc / (Dec) in sec. Loan	69.1	66.2	-50.0	-50.0
Dividend & Dividend Tax	-12.3	-14.8	-14.8	-14.8
Others	-64.5	-78.4	-57.3	-53.6
<b>CF from financing activities</b>	<b>-7.7</b>	<b>-27.0</b>	<b>-122.1</b>	<b>-118.3</b>
Net Cash flow	15.3	-14.0	45.2	230.4
Opening Cash	11.4	26.7	12.7	57.9
<b>Closing Cash</b>	<b>26.7</b>	<b>12.7</b>	<b>57.9</b>	<b>288.4</b>
<b>Free Cash Flow</b>	<b>12.7</b>	<b>-17.5</b>	<b>164.1</b>	<b>345.3</b>
FCF Yield	0%	0%	5%	10%

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet				₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E
Equity Capital	24.7	24.7	24.7	24.7
Reserve and Surplus	1,108.8	1,163.0	1,272.3	1,445.5
Total Shareholders fund	1,133.5	1,187.7	1,297.0	1,470.2
Total Debt	748.2	817.6	767.6	717.6
Others Liabilities	100.6	117.4	122.1	127.2
<b>Source of Funds</b>	<b>1,982</b>	<b>2,123</b>	<b>2,187</b>	<b>2,315</b>
Gross Block - Fixed Assets	1,570.3	1,800.2	1,950.2	2,100.2
Accumulated Depreciation	612.0	729.6	855.1	990.3
Net Block	958.3	1,070.6	1,095.1	1,109.9
Capital WIP	402.1	414.3	364.3	314.3
Net Fixed Assets	1,360.4	1,485.0	1,459.4	1,424.2
Investments	5.3	5.4	5.4	5.4
Inventory	316.7	303.7	343.6	352.1
Cash	26.7	12.7	57.9	288.4
Debtors	441.8	550.3	588.4	541.9
Loans & Advances & Other CA	0.0	0.0	0.0	0.0
Total Current Assets	939.0	966.6	1,099.8	1,303.2
Creditors	313.3	278.9	315.4	347.7
Provisions & Other CL	90.0	85.7	94.2	103.5
Total Current Liabilities	403.2	364.5	409.6	451.2
Net Current Assets	535.8	602.1	690.2	852.0
LT L&A, Other Assets	80.7	30.2	31.7	33.3
<b>Application of Funds</b>	<b>1,982</b>	<b>2,123</b>	<b>2,187</b>	<b>2,315</b>

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY23	FY24	FY25E	FY26E
<b>Per share data (₹)</b>				
EPS	6.4	5.7	10.1	15.3
Cash EPS	14.0	14.0	19.1	25.1
BV	92.2	96.6	105.4	119.5
DPS	1.2	1.2	1.2	1.2
Cash Per Share	49.8	59.3	69.5	80.5
<b>Operating Ratios (%)</b>				
Gross Margins	45.3	53.8	52.2	53.2
EBITDA margins	12.6	15.0	17.7	19.8
Net Profit margins	3.9	3.9	6.4	8.6
Inventory days	104	134	134	125
Debtor days	80	113	110	90
Creditor days	103	123	123	123
Asset Turnover	1.3	1.0	1.0	1.0
<b>Return Ratios (%)</b>				
RoE	6.9	5.9	9.6	12.8
RoCE	7.7	7.2	10.3	13.3
RoIC	9.4	8.8	12.4	17.6
<b>Valuation Ratios (x)</b>				
P/E	45.0	50.8	28.4	18.8
EV / EBITDA	16.7	16.2	12.3	9.1
EV / Revenues	2.1	2.4	2.2	1.8
Market Cap / Revenues	1.7	2.0	1.8	1.6
Price to Book Value	3.1	3.0	2.7	2.4
<b>Solvency Ratios</b>				
Debt / Equity	0.7	0.7	0.6	0.5
Debt/EBITDA	2.9	3.1	2.2	1.6
Current Ratio	2.3	2.6	2.5	2.2
Cash Conversion Cycle	81	124	121	92
Working Capital Cycle	184	247	244	215

Source: Company, ICICI Direct Research

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