

Shubh Nivesh



Performance volatility persists but recovery on cards

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 Q1FY25, Pharma & Crop protection accounted for 56% & 44% of sales, respectively. Pharma business (including animal healthcare) is further divided between APIs and CDMO (63:37).
- In Crop protection, 70% of sales are derived from CDMO while remaining is from proprietary products, specialty chemicals & specialty biocides

Investment Rationale

- Hikal Q1FY25- Crop protection performs well but Pharma muted - Revenues grew 5% YoY to ₹ 407 crore driven by 9% growth in Crop protection segment to ₹ 177 crore. However, Pharma grew just 2% to ₹ 229 crore. EBITDA grew ~15% to ₹ 58 crore and margins stood at 14.3% (130 bps improvement). PAT de-grew 26% to ₹ 5 crore mainly on account of higher depreciation and interest expenses. Pharma growth was impacted by 8% decline in API sales mainly due to planned shut-down for capacity expansion and change in product mix. Pharma CDMO on the other hand grew ~26%. In Pharma the company completed 13 customer audits during the quarter. Crop protection business was driven by Own products growth of ~44% even as CDMO business declined ~2%.
- Green shoots visible in Pharma; Crop protection recovery by FY25 end-As per management, the global Crop protection scenario is expected to improve by Q4FY25. In Pharma CDMO, the company continues to receive multiple requests for proposals from emerging pharmaceutical companies and global innovators. In animal healthcare, the company has completed the development and validation of five products and are currently on track to finish validating several others by the end of this year. The management has guided for 10-15% sales growth and has set EBITDA margin target of 18-20% post FY26. The commentary and the guidance are based on the demand scenario and the capex executed over the last five years. The company 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 stability in terms of earnings to return over the next few quarters with good Pharma traction and return of Crop protection momentum. Overall, we expect gradual improvement in margins and ROCE as both Pharma and Crop protection crawl back to normalcy after a turbulent phase of last few quarters.

Rating and Target price

- Our target price is ₹ 420 based on 14x EV/EBITDA of FY26.

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	1938.3	2181.0	10.6
EBITDA	273.2	322.9	340.6	255.1	-2.3	267.0	334.4	401.2	22.6
EBITDA Margins (%)	18.1	18.8	17.5	12.6		15.0	17.3	18.4	
Adjusted PAT	99.8	133.2	160.5	78.4	-7.7	69.6	111.6	162.1	52.7
EPS (₹)	8.1	10.8	13.0	6.4		5.7	9.1	13.2	
PE (x)	42.6	32.0	26.5	54.3		61.2	38.1	26.3	
EV to EBITDA (x)	17.8	15.0	14.4	19.5		19.0	14.9	11.8	
Price to book (x)	5.2	4.6	4.0	3.8		3.6	3.3	3.0	
RoE (%)	12.2	14.3	15.0	6.9		5.9	8.7	11.3	
RoCE (%)	12.8	15.1	13.6	7.7		7.2	9.8	12.0	



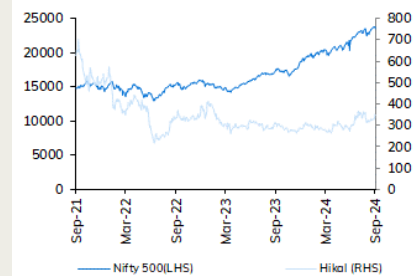
Particulars

Particular	Amount
Market Cap	₹ 4244 crore
Debt (FY24)	₹ 818 crore
Cash (FY24)	₹ 13 crore
EV	₹ 5048 crore
52 week H/L (₹)	331/250
Equity capital	₹ 24.6 crore
Face value	₹ 2

Shareholding pattern

(in %)	Sep-23	Dec-23	Mar-24	Jun-24
Promoter	68.8	68.8	68.8	68.9
FII	4.8	6.1	6.6	6.7
DII	3.1	3.2	3.5	3.2
Others	23.3	21.9	21.1	21.3

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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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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