



Farsight

MORNING FARSIGHT

Monday, November 19, 2018

HIKAL

CMP:RS 149

TRGT:RS 175

TIME HORIZON: 1 YEAR

Hikal, a B2B player providing active ingredients, intermediates and R&D services to global pharmaceuticals, animal health, crop protection and specialty chemicals companies, with 5 manufacturing facilities across Maharashtra, Gujarat and Karnataka, has posted strong earnings for Q2FY19, with revenue having risen to Rs. 395 cr from Rs. 326 cr QoQ and Rs. 293 cr YoY, a growth of 21% QoQ and 35% YoY, which was led by 52% YoY growth in Pharma Division revenue, while Crop Protection revenue grew by 13%YoY. Pharma Division earned EBIT of Rs. 35 cr against Rs. 22 cr QoQ / Rs. 16 cr YoY, a growth of 59% QoQ / 119%YoY, with EBIT margin of 13.9% against 12.3% QoQ. Crop Protection earned EBIT of Rs. 25 cr against Rs. 22 cr YoY, higher by 13%. PAT is at Rs. 24.4 cr against Rs. 15.9 cr QoQ and Rs. 15.3 cr YoY, a growth of 52% on QoQ and YoY as well. Due to ongoing environmental issues in China, a number of chemical, intermediate and API plants have shut down. Restoration of this capacity is also likely to take longer. Most customers sourcing raw materials from China are now looking at alternative long-term sustainable sources. As per the management, the company is well poised to grab this opportunity due to its strong track record and capability. Management has guided for 19-20%of EBITDA margins in the next two years (18.9% in H1FY19), 15-16%RoCE and 17-20% revenue growth. With proven capabilities and management pedigree, we believe Hikal offers a compelling value proposition as it continues to expand both the Pharma and Agrochem segments, with stock trading at PE of 19.2x on FY19e EPS of Rs.8 and 15.4x on FY20e EPS of Rs. 10, which are seen reasonable, as Hikal as always had premium multiples. Share ruling at Rs. 149 can move to Rs. 175 in 1 year. Buy as an investor only.

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POTENTIAL CONFLICT OF INTEREST DISCLOSURE (as on date of report)

Disclosure of interest statement – • Analyst interest of the stock /Instrument(s): - No. • Firm interest of the stock / Instrument (s): - No.