

Industry	CMP	Recommendation	Buying Range	Target	Time Horizon
Pharmaceuticals	Rs. 212	BUY at CMP and add on Declines	Rs. 212-187	Rs. 247 - 290	12 Months

HDFC Scrip Code	HIKLTD
BSE Code	524735
NSE Code	HIKAL
Bloomberg	HKCL
CMP as on 28 Apr - 17	212
Equity Capital (Rs Cr)	16.4
Face Value (Rs)	2
Equity O/S (Cr)	8.2
Market Cap (Rs cr)	1751
Book Value (Rs)	75
Avg. 52 Week Volumes	108310
52 Week High	744
52 Week Low	452

Shareholding Pattern (%)	
Promoters	68.8
Institutions	20.5
Non Institutions	10.7

PCG Risk Rating*	Yellow
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\* Refer to Rating explanation

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### Company Background

Hikal Limited is engaged in the manufacturing of various chemical intermediates, specialty chemicals, active pharmaceutical ingredients (APIs) and contract research activities. The Company offers pharmaceuticals and agrochemicals. Its segments include Crop Protection and Pharmaceuticals. It offers agrochemicals, including active ingredients, such as Ammonium dithiocarbamate, Amitrole Tech, Diuron Tech, Ethion Tech, Imazalil Tech, Isoproturon Tech, Meta chloro Aniline (MCA), Quinalphos Tech and Temephos Tech, and intermediates and specialty chemicals, such as Phenyl-2-(phenylthio)-phenyl carbamate, 4-(Benzylxy) Aniline Hydrochloride, N-Benzylpiperidine-4-carboxaldehyde, 3-Chloroaniline and 4 Aminobenzylamine. Its APIs include Gabapentin, Pregabalin, Levetiracetam, Quetiapine Fumarate, Memantine Hydrochloride, Venlafaxine Hydrochloride and Donepezil Hydrochloride. The Company operates in geographical areas, including India, Europe, the United States, Canada and South East Asia. The company derives 65% revenues from Pharmaceuticals and 35% from Crop Protection Chemicals. More than 85% revenues are derived from export markets mainly Europe, USA and Japan.

### Investment Rationale

Hikal operates in the two segments Pharmaceuticals and Crop Protection with revenue breakup of 60% and 40%, respectively. Both businesses are run independently and have their respective Heads (presidents). Management targets overall revenue growth of 12-15% for the next 5 years and target to double revenues in the five years. Apart from the two segments, Animal Health also remains in focus, though it is not reported as a separate segment yet (the products are reported under their respective segments currently). Segment revenue is currently ~Rs 80cr and management expects to grow it to 2-2.5x in the next three years. It plans to launch 2-3 agrochemical products every year and continually have 4-6 products under development.

- Pharmaceutical Segment – projects in various stages of clinical trials, world's largest supplier of Gabapentin, serves US, Europe and Japan, augurs a strong future for the company. It is into generic APIs as well as Contract development and Manufacturing business (CDMO).
- Crop Protection – focus is to diversify the product offerings, partner with new clients, introduce several new products which are under development in R&D that will grow the revenue and increase profitability in the near future. In the exports front, Europe and Japan are the key markets for Hikal.

- R&D - ensures scale up from Lab to Commercialization in both Pharma (few of the products in development stage to be off patent soon) and Crop Protection (~15% success rate of molecules of herbicides, fungicides and insecticides going into commercial production) and venturing into animal health big way.

## **View and Valuations**

Hikal realizes the potential of chemistry to improve the quality of life. The company explores the composition, structure, properties and reaction of molecules to provide customized solutions meeting the expectations of innovator, specialty and generic companies. Hikal delivers intermediates for candidate drugs and active pharmaceutical intermediates (APIs) for formulations. It also supplies building blocks for discovery research in a contractual model. Hikal has posted 12% revenue cagr over FY13-16 however over the last two years performance has been muted with 5-7% growth in revenues. We expect company to post 11.3% revenue cagr led by both its segments Pharmaceuticals and Crop Protection Chemicals. We forecast 130 bps operating margin expansion over FY16-19E led by better products mix and operational efficiency. We estimate 38% PAT cagr on the back of better operational performance and lower finance costs over FY16-19E. Company has already posted PAT of Rs 39cr vs. Rs 19cr during 9M FY16. Hikal trades at ~16x FY19E earnings and 8x EV/EBITDA. We value the company at 22x FY19E EPS and ~11x EV/EBITDA and arrive to target price of Rs 290. We recommend investors to BUY the stock at CMP of Rs 212 and add on declines to Rs 187 for sequential price targets of Rs 247 and Rs 290 over the next 12 months.

## **Business Overview**

Hikal is amongst the few Global Company to offer customized, cost effective and sustainable solutions from R&D to Commercial Manufacturing and it is also one of very few global and only Indian Company to provide APIs for both Pharmaceuticals and Crop Protection – Hybrid Model.

## **Pharmaceuticals**

Hikal is a partner of choice to the global pharmaceutical industry. The company supports the pharmaceutical industry from the early lead generation stage till the launch of new chemical entities. Hikal's specialization spans the entire spectrum from conventional synthesis to complex chiral chemistry and is backed by state-of-the-art analytical facilities.

Intermediates are manufactured at Panoli, Gujarat and Active Ingredients are manufactured in Bangalore meeting regulated markets (US, Europe and Japan) standards.

Hikal undertakes custom manufacturing projects in intermediates and APIs for multinational companies. Hikal has expertise in custom synthesis and contract research, with capabilities scaling up from gram to kilo and

ton level of production. It offers suite of services encompassing the whole process, beginning with a Confidentiality Agreement, followed by a detailed offer, laboratory, Pilot plant work and concluding with commercial manufacture of the intermediate and/or API.

Some of the Pharmaceuticals Products include Gabapentin, Bupropion Hydrochloride, Gemfibrozil, Pentoxyfylline, Ondansetron Hydrochloride, Ondansetron Base, Triprolidine Hydrochloride, Acebutolol Hydrochloride, Cinnarizine, Flunarizine Hydrochloride and Levetiracetam.

Major pharmaceutical companies have audited the company's facilities and rated them on par with the best in the world. The state-of-the-art, multipurpose production plants are ISO 9001-2000 compliant and follow cGMP standards. The plant at Bangalore is approved by US FDA, TGA and WHO GMP.

### **Crop Protection Chemicals**

Hikal specializes in Custom Synthesis and Contract Manufacturing of Agrochemicals, Intermediates and Specialty Chemicals. Today, it is the preferred choice of leading Crop Protection companies in the world. Multinational companies (MNCs) leverage the company's expertise in developing non-infringing processes for molecules and analytical development.

The company has made significant investment in intellectual capital, Research & Development and state of the art manufacturing plants. Hikal's strengths in process development, analytical development, pilot plant, basic engineering capabilities and process automation have resulted in long-term partnerships with major Crop Protection companies.

Hikal offers a range of high quality active ingredients for the Agrochemical industry. The Herbicide, Insecticide and Fungicides meet stringent global, specifications and quality standards. Hikal's list of intermediates and specialty chemicals includes several fine chemicals used to manufacture agrochemicals.

Several Products include Diuron, Ethion, Isoproturon, Metoxuron, Quinalphos and Thiabendazole.

### **R&D**

R&D is a core competency of Hikal. They assign top most priority to investments in world-class scientists and laboratory instrumentation. Their R&D team is mentored by a Scientific Advisory Board of eminent scientists. They have an impressive R&D record. Their scientists have published several publications and received patents. They have developed several innovative and cost effective processes for several well-known APIs.

## Largest Supplier of Gabapentin

The company is world's largest supplier of Gabapentin, an API for Neuropathic use and is market leader in the product. Gabapentin is used with other medications to prevent and control seizures. It is also used to relieve nerve pain following shingles (a painful rash due to herpes zoster infection) in adults. Gabapentin is known as an anticonvulsant or antiepileptic drug. It may also be used to treat other nerve pain conditions (such as diabetic neuropathy, peripheral neuropathy, trigeminal neuralgia).

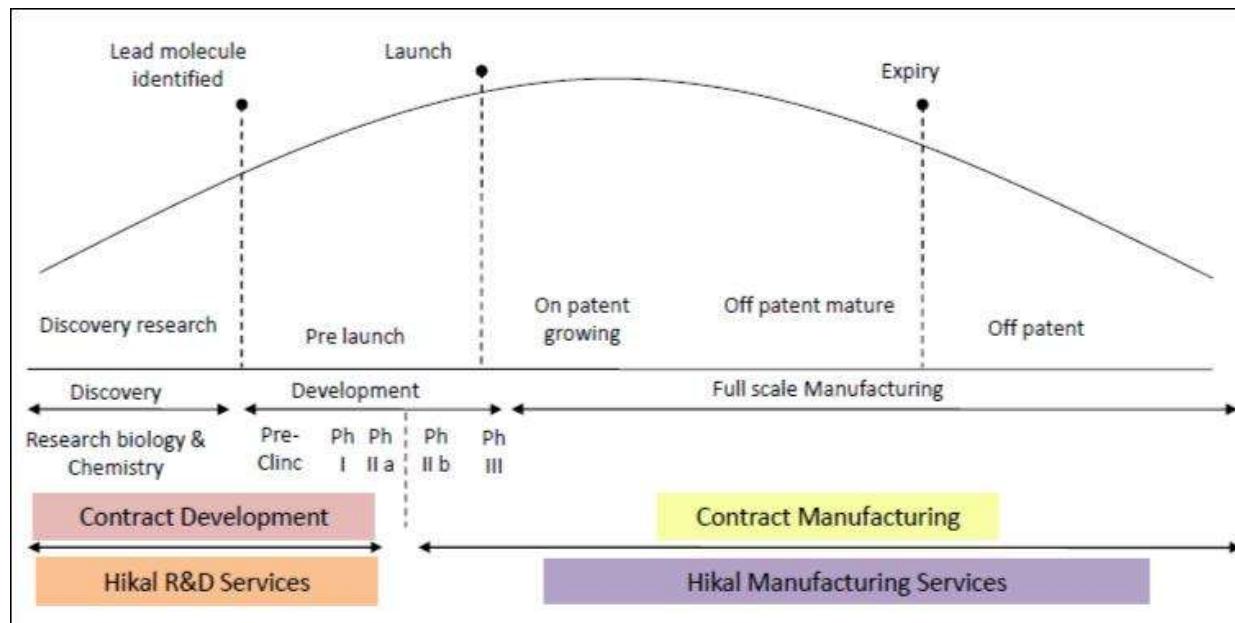
Hikal has a long-term contract manufacturing agreements with a European innovator client to commercially manufacture molecules which is gaining momentum. The molecules are performing well in the market and volumes have increased substantially. These products are expected to grow in the future according to the positive indications received from the client. Hikal is also scouting for various other projects which can be started for commercial manufacturing.

Hikal also offers a specialised product to US based food ingredient client. Several other new clients are interested in this product. A dedicated manufacturing line has been commissioned for this product and volumes are expected to grow in the near future.

Hikal also serves the Japanese market where its track record of meeting quality requirements is established. Several contract manufacturing opportunities are in discussion for advanced intermediates. Also there are several products derived through R&D which have also progressed to the semi commercial stage. Hikal expects commercial manufacturing business to expand over the next few years in Japan.

The pharmaceutical business focuses on contract manufacturing opportunities and developing generics. Hikal continues to add new products on a commercial scale while improving the cost advantage of the existing portfolio. The company explores opportunities in early stage development projects for new molecules and works towards their commercial manufacturing at the facilities. Hikal is more closely aligned with client requirements to achieve growth and profitability.

Hikal provides expertise in custom synthesis and contract research with capabilities scaling up from gram to kilo and ton level of production. The company's business model is to provide services and support across the value chain which helps the company to develop strong customer relationships with global generics and innovator companies.



Source: Company, HDFC sec Research



Source: Company, HDFC sec Research

Hikal has an impeccable quality and regulatory track record which helps it to attract and retain clients. The company's past performance will help it to increase profit margins since cost alone will not be the sole reason to outsource for life science companies. Hikal actively pursues opportunities for clinical molecules in Phase II and III as well as lifecycle extension projects for innovator companies. It enables the company to provide a compelling value proposition as products reach patent expiration. Several mid-size and biotech clients for early stage molecules have been added for custom development projects. Projects are in various stages of clinical trials where some clinical development quantities have been supplied by Hikal.

Hikal has devised a strategy to become a formidable generic API supplier. It identifies products early in the pipeline for clients, use technology and innovative chemistry for a cost advantage in molecules that go off patent in the next 3-5 years and explore products for the long term. This approach has given Hikal a superior cost position which helps to differentiate the company from other API suppliers. Hikal has invested significantly in the generic API business both in terms of personnel and manufacturing capabilities. The company has strengthened its R&D infrastructure by hiring experienced scientists and specialists. In FY15, debottlenecking of capacity in two of the API blocks at Jigani, Bangalore was completed. The capacity can be further debottlenecked as per client's requirements.

The company wants to gain market share in key APIs by increasing the volumes of the existing contract manufacturing clients for their molecules. Hikal plans to file 4-5 DMFs per year and the selection of these products are on the basis of client's interest and niche molecules where the company has a distinct technology advantage to gain considerable market share backed by expertise in advanced chemistry and backward integration. Hikal as part of its diversification strategy is pursuing allied niche opportunities in steroids and oncology. The company has invested in setting up labs and is in the process of evaluating commercial manufacturing opportunities in steroids. This diversification strategy along with the healthy product pipeline will continue the growth and profitability path for the pharmaceutical division.

### **Crop Protection Chemicals**

Crop Protection – focus is to diversify the product offerings, partner with new clients, introduce several new products which are under development in R&D that will grow the revenue and increase profitability in the near future.

The crop protection division is focused on contract development and manufacturing for global multinational companies. The company adopts two pronged strategy for this division; first is to target the existing clients for additional molecules in their portfolio, and second is to focus on commercializing new molecules to provide them to several clients in existing and new markets. Hikal's clients have traditionally been large innovators in western countries. The company plans to de-risk its client and product profile by introducing new molecules in markets where it has limited reach such as emerging markets. The company started to develop and sell proprietary products such as Quinalphos, Diuron. Also the company streamlined some of their large manufacturing facilities by debottlenecking plants and improving existing processes through the support of the R&D. Hikal has exclusive supplier-relationship with Syngenta (Thiabendazole), Bayer

(Fenamidone,) and BASF (Initium). These fungicide molecules contribute largely towards crop protection revenues for the company.

The company has manufactured a fungicide exclusively for an innovator client. It is used to protect grapes, potatoes, tobacco and vegetables. The wide use of this product would help the molecule to grow over several years. The company has also developed an on-patent new generation herbicide which is used on vegetables, potatoes and specialty crops. The product is very well accepted and hence receiving additional market approvals which are in turn increasing volumes. The Japanese MNC customer, for which the plant got commissioned in August 2015 and trial production was going on, has commenced its commercial operations and the customer will contribute additional turnover of about Rs 50 crore. As per the management, there is surplus capacity with the company in crop protection business, which they will use it for the Rest of the Market other than US and EU. The Rest of the market slowly is picking up and will start contributing in a meaningful way in 3 to 4 years from now.

Several projects have reached the development phase and pilot plant level. The clients include Japanese, European and mid-size specialty chemical companies. The products range from advanced intermediates to final actives including herbicides, fungicides and insecticides and small niche products. We expect the pipeline of projects to yield additional revenues and profitability in the years to come.

Hikal is developing a niche animal health business. The flexibility of the facilities and chemistry competencies (through R&D) are suitable for value-added services in this fast growing market. Company has invested in its Animal Health business in the last year and plans to do so in the coming years as well. As part of future strategy, company also plans to treat this business as a separate unit as it requires a focused effort. It started with only four clients in this segment, and have been able to increase the client base to 10+ now, and we believe company will continue to add clients with development pipeline in the coming years.

The global crop protection chemicals market is segmented into regions and further subdivided into key countries. In terms of regions, the market is segmented into North America, Europe, Asia-Pacific, Latin America, and the rest of the world. Asia-Pacific and North America are the top two markets for crop protection chemicals, accounting for nearly 50% of the total market share. Asia-Pacific is the fastest-growing region in terms of revenue.

### **Pharmaceuticals Segment - FY16 performance**

The (CDMO) Contract Development and Manufacturing business registered robust growth of 24% yoy supported by increased volumes of existing products as well as new development projects from key innovator clients.

Company has identified several lucrative opportunities for custom development and manufacturing of intermediates and APIs which we will incorporate into pipeline. These initiatives are in various stages of development and semi-commercialization.

## Hikal Generic API Business

During the year, generic API business was down 14% yoy. This was primarily due to pricing pressure on some of key products and also low demand of some of products due to an inventory build-up at clients' end. Despite lower prices, volume growth was approximately 5% as compared to last year. While pricing pressure is expected to continue, company plans to mitigate risks with cost rationalization in the areas of raw materials, lower inventories, streamlining the supply chain, improving processes and reducing utility costs.

In FY16, company filed four DMFs as part of proprietary portfolio in the pharmaceutical division. The DMFs are for Pregabalin which is used for neuropathic pain, Valacyclovir which is an antiviral drug which slows the growth and spread of herpes, Quetiapine which is an antipsychotic and Venlafaxine which is an antidepressant. All these products are blockbusters currently on the market, some of which are under patent protection and some of which are already commercial. Company has targeted to file five - six DMFs in FY17 and FY18.

The three-pronged strategy for API development (already generic, to be generic and future generic) approach will help generate revenues for the short-term as well as build a pipeline from a long-term perspective. Hikal continues to work on implementing new technologies and developing innovative processes that will differentiate from other API suppliers. Hikal will file DMFs having identified 8 to 10 new products for generic development. It will file five to six DMFs to develop a healthy pipeline of commercial APIs every year. The products selected will be a combination of client requirements and niche molecules.

## Crop Protection

There are several early stage projects in crop protection pipeline. A majority of these projects are from innovator clients in Japan and Europe. These molecules are on patent and in some of these situations, it is not possible to know the target indication or the candidate molecule. During the last year, company completed the piloting and validation of two on-patent herbicides for Japanese clients and an intermediate herbicide for an on-patent European innovator company. These products are expected to go into commercial production in 2017. Three additional products, two fungicides for different Japanese companies and another fungicide for an innovator were commercialized successfully and their processes optimized for cost. R&D successfully established the recovery and recycle of solvents and catalysts on a commercial scale for these products, thereby improving the cost and value proposition to clients. Once the registration is complete, commercial supplies of the products will start.

## 9M FY17 performance Analysis

Hikal posted 11% yoy growth in revenues as Crop Protection revenues grew 17%. Pharmaceutical revenues up 7% yoy to Rs 429cr. Operating margin also witnessed 80bps margin expansion on the back of lower RM costs. Improvement in operating performance and lower finance costs resulted into 105% yoy rise in PAT. Both the segments witnessed improvement in EBIT margin front. For 9M FY17. Pharmaceuticals contributed ~60% of the revenues and the balance from Crop Protection.

In Jan 2017, Hikal had sold its land at Bengaluru, which was ~1.5 acres of land. It was its R&D centre but earlier in 2014 it had already shifted its R&D centre to Pune. The proceeds would be used for business ongoing operations.

In Jan 2017, Hikal's API facility at Bengaluru had successfully passed US FDA inspection with zero 483 observations. Till date, company has been successful in passing out US FDA and European Authority Audits which augurs well for the company.

Rs Cr	9M FY17	9M FY16	% Growth
<b>Revenues</b>	704	636	11
<b>OP</b>	140	122	15
<b>OPM</b>	19.9	19.1	
<b>PAT</b>	39	19	105
<b>Revenues</b>	<b>9M FY17</b>	<b>9M FY16</b>	
<b>Pharmaceuticals</b>	429	400	7
<b>Crop Protection</b>	276	236	17
<b>Segment EBIT</b>			
<b>Pharmaceuticals</b>	56	57	-2
<b>Crop Protection</b>	50	30	67
<b>EBIT Margin (%)</b>			
<b>Pharmaceuticals</b>	13.2	14.2	
<b>Crop Protection</b>	18.1	12.7	

Source: Company, HDFC sec Research

**The company has successfully completed all the regulatory approvals and inspections each time when its site is inspected**

Year	Details
2004	US FDA approval of Bangalore Pharmaceutical manufacturing site
2008	Second successful US FDA Audit of Bangalore facility
2011	Bangalore clears its 3rd successful US FDA audit
2012	Panoli certified by the US FDA. Panoli & Bangalore sites receive PMDA approval
2013	Panoli & Bangalore Pharma Sites are EU Audited
2014	Successfully completed EDQM (European Directorate for Quality of Medicines) Audit at Bangalore site. 4th Successful US FDA audit for Bangalore facility
2017	Successfully passed US FDA Audit of API facility at Bengaluru with Zero 483

Source: Company, HDFC sec Research

## **Recommend BUY with TP of Rs 290**

Hikal continues to focus on both the generic API and custom manufacturing businesses. It is positioning itself as a leading provider of contract development and commercial manufacturing services as well as a reliable supplier of generic APIs.

Hikal's focus in the crop protection business is to diversify their product offerings, partner with new clients, introduce several new products which are under development in R&D that will grow the revenue and increase profitability over the medium term.

Strong and integrated R&D process at Pune Centre is resulting in scaling up of capabilities and process development for APIs for Pharmaceuticals and Animal Health Industry and AIs for the Crop Protection Industry.

We expect company to post 11.3% revenue cagr led by both its segments Pharmaceuticals and Crop Protection Chemicals. We forecast 130 bps operating margin expansion over FY16-19E led by better products mix and operational efficiency. We estimate 38% PAT cagr on the back of better operational performance and lower finance costs over FY16-19E. Company has already posted PAT of Rs 39cr vs. Rs 19cr during 9M FY16. Hikal trades at ~16x FY19E earnings and 8x EV/EBITDA. We value the company at 22x FY19E EPS and ~11x EV/EBITDA and arrive to target price of Rs 290. We recommend investors to BUY the stock at CMP of Rs 212 and add on declines to Rs 187 for sequential price targets of Rs 247 and Rs 290 over the next 12 months.

### **Risks and Concerns**

#### **Regulatory Risk**

In today's regulatory environment, non-compliance risk is a major concern for the company. Issues raised by the US FDA and other global regulatory authorities can have a detrimental impact on revenues and profitability. Any change in the law or regulation made by the government or regulatory authorities can substantially increase the cost of operations and reduce profitability.

#### **Customer and Product Focus**

The crop protection and pharmaceuticals businesses are based on long-term contracts with clients. A muted forecast (due to macro conditions) by clients will certainly affect revenues. Based on the company's experience of such risks, they have expanded their client base and diversified the product portfolio across regions to mitigate this risk.

## Crop protection division dependent on agriculture prospects

Crop Protection segment's revenue is directly dependent on the prospects of agriculture, crop commodity and farm income. The crop protection chemicals market is driven by limited availability of arable land, high profit margins, and modern farming practices. However looking at the global scenario, Asia Pacific is one of the fastest growing market in terms of revenue.

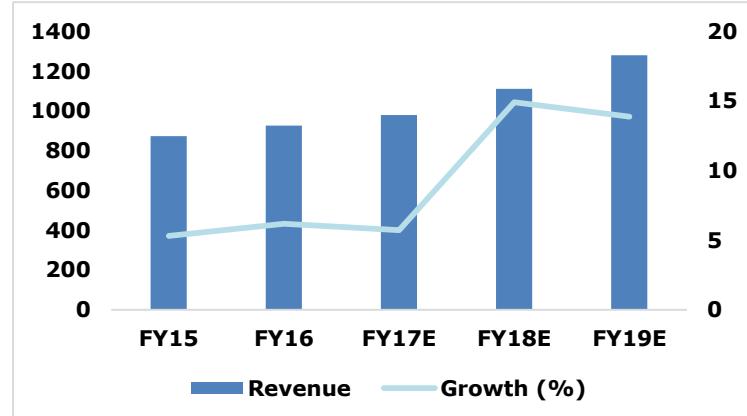
### Forex Risks

Hikal earns nearly 85% of its revenue through exports. This possesses a risk of foreign currency fluctuation which needs to be mitigated. The company has diversified its customer's base which includes more local customers who in turn re-export the manufactured products. The company also has certain working capital loan in foreign currency.

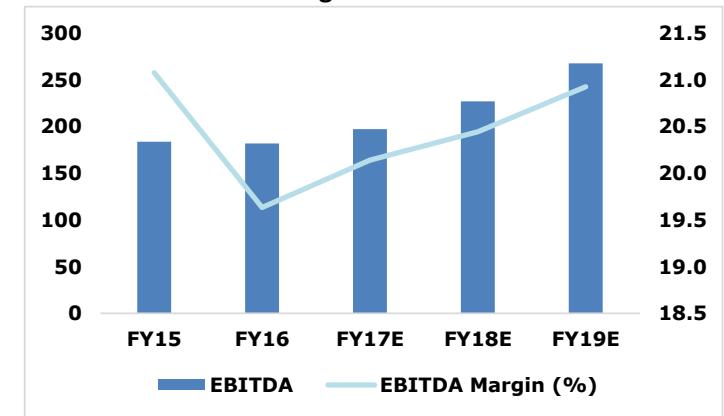
### Financial Summary (Rs cr)

(Rs Cr)	FY15	FY16	FY17E	FY18E	FY19E
Sales	873	927	980	1111	1279
EBITDA	186	184	202	233	275
Net Profit	43	41	57	75	109
EPS (Rs)	4.8	5.0	7.0	9.1	13.3
P/E	44.7	43.3	30.9	23.5	16.1
EV/EBITDA	11.6	11.8	10.9	9.4	8.0

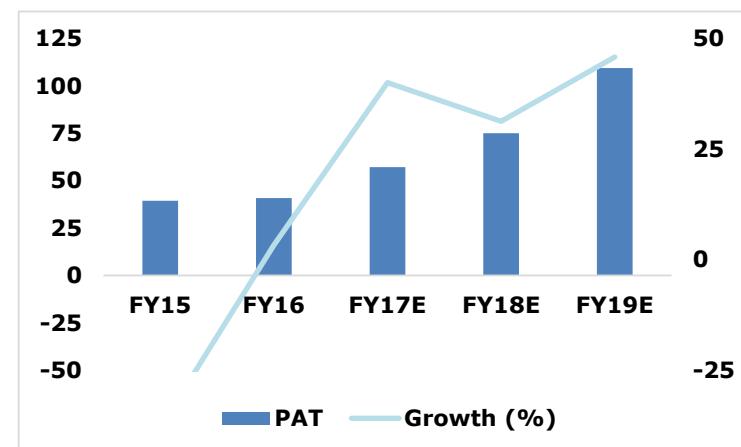
Source: Company, HDFC sec Research

**Revenues to post healthy ~11% cagr**


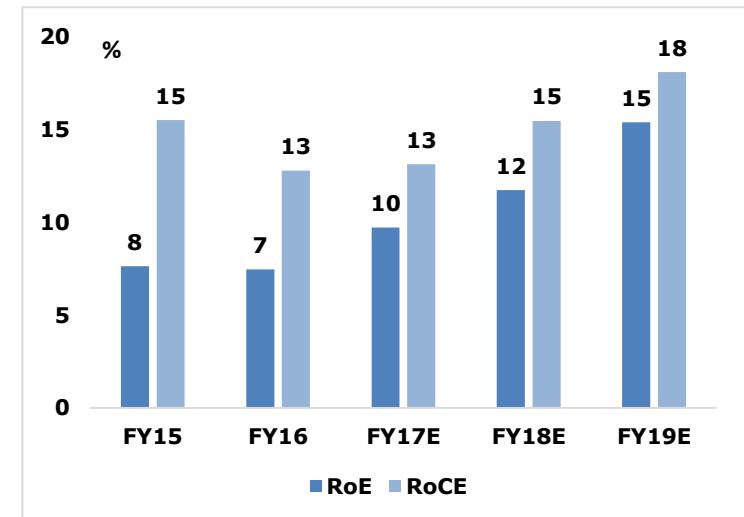
Source: Company, HDFC sec Research

**EBITDA and EBITDA Margin Trend**


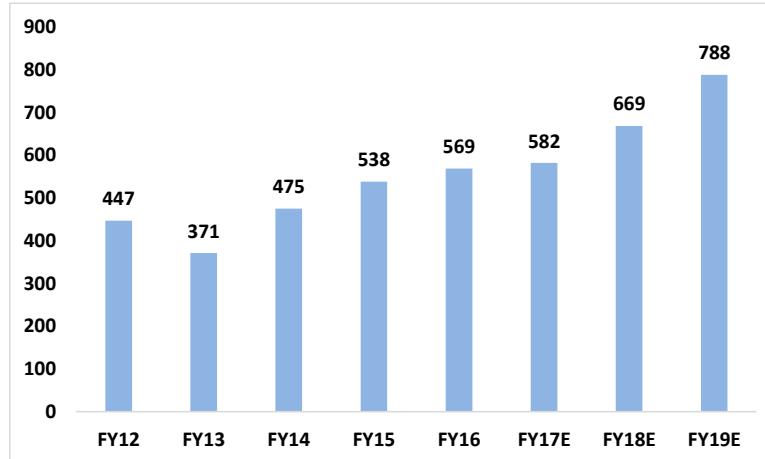
Source: Company, HDFC sec Research

**PAT Growth over FY16-19E**


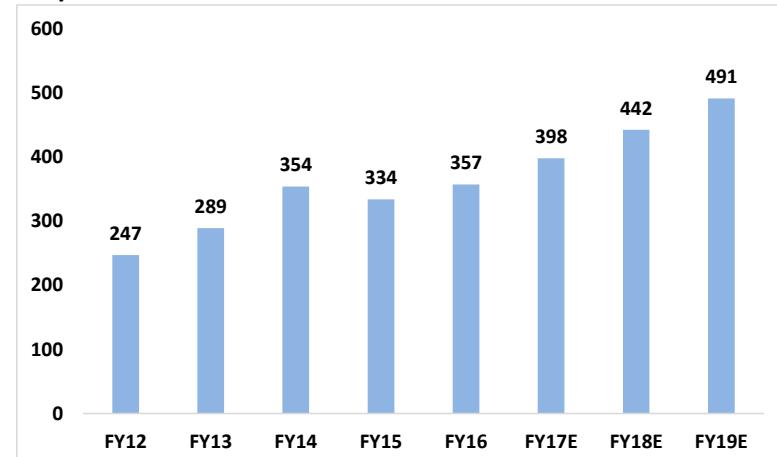
Source: Company, HDFC sec Research

**Return Ratios**


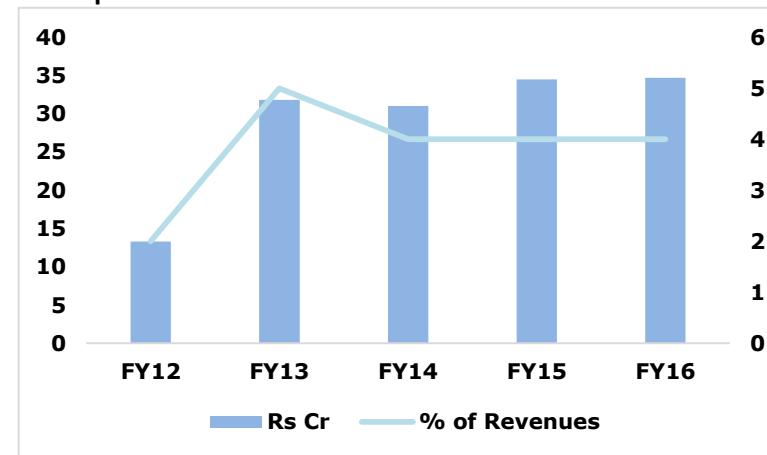
Source: Company, HDFC sec Research

**Pharmaceuticals Revenues to post 11.5% cagr over FY16-19E**


Source: Company, HDFC sec Research

**Crop Protection Revenues Trend**


Source: Company, HDFC sec Research

**R&D Spend Trend**


Source: Company, HDFC sec Research

**Income Statement (Consolidated)**

(Rs Cr)	FY15	FY16	FY17E	FY18E	FY19E
<b>Net Revenue</b>	<b>873</b>	<b>927</b>	<b>980</b>	<b>1111</b>	<b>1279</b>
Other Income	2	2	5	6	7
<b>Total Income</b>	<b>875</b>	<b>929</b>	<b>985</b>	<b>1117</b>	<b>1286</b>
Growth (%)	5.3	6.2	5.7	13.4	15.2
Operating Expenses	689	745	783	884	1012
<b>EBITDA</b>	<b>186</b>	<b>184</b>	<b>202</b>	<b>233</b>	<b>275</b>
Growth (%)	-10.1	-1.1	8.5	15.1	17.9
<b>EBITDA Margin (%)</b>	<b>21.1</b>	<b>19.6</b>	<b>20.1</b>	<b>20.4</b>	<b>20.9</b>
Depreciation	64	67	71	73	76
<b>EBIT</b>	<b>122</b>	<b>117</b>	<b>132</b>	<b>160</b>	<b>199</b>
Interest	60	62	52	54	49
<b>PBT</b>	<b>62</b>	<b>55</b>	<b>80</b>	<b>106</b>	<b>150</b>
Tax	19	12	20	29	40
<b>RPAT</b>	<b>43</b>	<b>43</b>	<b>60</b>	<b>77</b>	<b>109</b>
<b>PAT</b>	<b>40</b>	<b>41</b>	<b>57</b>	<b>75</b>	<b>109</b>
Growth (%)	-38.0	3.3	40.1	31.3	45.8
<b>EPS</b>	<b>4.8</b>	<b>5.0</b>	<b>7.0</b>	<b>9.1</b>	<b>13.3</b>

Source: Company, HDFC sec Research

**Balance Sheet (Consolidated)**

As at March	FY15	FY16	FY17E	FY18E	FY19E
<b>SOURCE OF FUNDS</b>					
Share Capital	<b>16.4</b>	<b>16.4</b>	<b>16.4</b>	<b>16.4</b>	<b>16.4</b>
Reserves	516	547	589	646	733
<b>Shareholders' Funds</b>	<b>532</b>	<b>563</b>	<b>606</b>	<b>663</b>	<b>750</b>
Long Term Debt	201	297	312	290	261
Net Deferred Taxes	29	30	27	25	22
Long Term Provisions & Others	144	72	81	92	105
<b>Total Source of Funds</b>	<b>906</b>	<b>962</b>	<b>1029</b>	<b>1070</b>	<b>1138</b>
<b>APPLICATION OF FUNDS</b>					
Net Block	639	623	757	750	759
CWIP	62	66	30	44	22
Long Term Loans & Advances	90	118	137	150	162
<b>Total Non Current Assets</b>	<b>791</b>	<b>807</b>	<b>924</b>	<b>944</b>	<b>943</b>
Inventories	314	291	306	335	379
Trade Receivables	128	112	126	143	168
Short term Loans & Advances	41	44	52	56	62
Cash & Equivalents	14	19	29	51	32
Other Current Assets	4	1	2	5	14
<b>Total Current Assets</b>	<b>501</b>	<b>467</b>	<b>515</b>	<b>590</b>	<b>655</b>
Short-Term Borrowings	231	172	177	165	147
Trade Payables	137	129	129	150	173
Other Current Liab & Provisions	132	62	67	74	85
Short-Term Provisions	18	12	14	16	18
<b>Total Current Liabilities</b>	<b>518</b>	<b>375</b>	<b>387</b>	<b>405</b>	<b>423</b>
Net Current Assets	-17	92	128	185	232
<b>Total Application of Funds</b>	<b>906</b>	<b>962</b>	<b>1029</b>	<b>1070</b>	<b>1138</b>

Source: Company, HDFC sec Research

**Cash Flow Statement (Consolidated)**

(Rs Cr)	FY15	FY16	FY17E	FY18E	FY19E
Reported PBT	62	55	80	106	150
Non-operating & EO items	-2	-9	-5	-6	-7
Interest Expenses	60	62	52	54	49
Depreciation	64	67	71	73	76
Working Capital Change	31	-104	-26	-35	-66
Tax Paid	-19	-12	-20	-29	-40
<b>OPERATING CASH FLOW ( a )</b>	<b>196</b>	<b>59</b>	<b>151</b>	<b>164</b>	<b>161</b>
Capex	-105	-55	-95	-65	-85
Free Cash Flow	91	-106	56	99	76
Investments	-20	-28	-19	-13	-12
Non-operating income	2	2	5	6	7
<b>INVESTING CASH FLOW ( b )</b>	<b>-124</b>	<b>-81</b>	<b>-109</b>	<b>-73</b>	<b>-90</b>
Debt Issuance / (Repaid)	-57	95	16	-20	-30
Interest Expenses	-60	-62	-52	-54	-49
FCFE	-26	-73	21	25	-3
Share Capital Issuance	0	0	0	0	0
Dividend	-11	-11	-15	-18	-22
<b>FINANCING CASH FLOW ( c )</b>	<b>-128</b>	<b>22</b>	<b>-51</b>	<b>-92</b>	<b>-101</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>-56</b>	<b>0</b>	<b>-8</b>	<b>-1</b>	<b>-30</b>

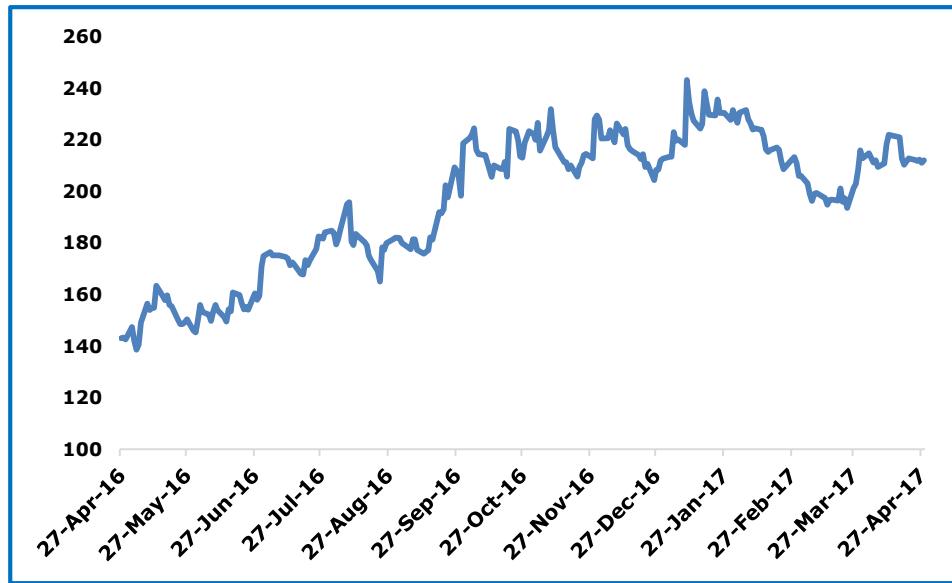
Source: Company, HDFC sec Research

**Key Ratio (Consolidated)**

(Rs Cr)	FY15	FY16	FY17E	FY18E	FY19E
EBITDA Margin	21.1	19.6	20.1	20.4	20.9
EBIT Margin	13.7	12.4	12.9	13.9	15.0
APAT Margin	4.5	4.4	5.8	6.8	8.6
RoE	7.6	7.4	9.7	11.7	15.4
RoCE	15.5	12.8	13.1	15.5	18.1
<b>Solvency Ratio</b>					
Net Debt/EBITDA (x)	2.3	2.5	2.3	1.8	1.4
D/E	0.8	0.8	0.8	0.7	0.5
Net D/E	0.8	0.8	0.7	0.6	0.5
<b>PER SHARE DATA</b>					
EPS	4.8	5.0	7.0	9.1	13.3
CEPS	12.6	13.1	15.5	18.0	22.5
BV	64.8	68.5	74.7	81.0	92.2
Dividend	1.0	1.0	1.3	1.6	2.0
<b>Turnover Ratios (days)</b>					
Debtor days	54	44	47	47	48
Inventory days	131	119	114	110	108
Creditors days	83	74	71	73	74
<b>VALUATION</b>					
P/E	44.7	43.3	30.9	23.5	16.1
P/BV	3.3	3.1	2.9	2.7	2.3
EV/EBITDA	11.6	11.8	10.9	9.4	8.0
EV / Revenues	2.5	2.3	2.2	1.9	1.7
Dividend Yield (%)	0.5	0.5	0.6	0.7	0.9
Dividend Payout	20.8	20.1	18.7	17.5	15.0

Source: Company, HDFC sec Research

### Price Chart

**Rating Definition:**

Buy: Stock is expected to gain by 10% or more in the next 1 Year.

Sell: Stock is expected to decline by 10% or more in the next 1 Year.

**Rating Chart**

R E T U R N	HIGH			
	MEDIUM			
	LOW			
		LOW	MEDIUM	HIGH
RISK				

**Ratings Explanation:**

RATING	Risk - Return	BEAR CASE	BASE CASE	BULL CASE
BLUE	LOW RISK - LOW RETURN STOCKS	IF RISKS MANIFEST PRICE CAN FALL 15% & IF INVESTMENT RATIONALE FRUCTFIES PRICE CAN RISE BY 15%	IF RISKS MANIFEST PRICE CAN FALL 15% & IF INVESTMENT RATIONALE FRUCTFIES PRICE CAN RISE BY 20% OR MORE	IF INVESTMENT RATIONALE FRUCTFIES PRICE CAN RISE BY 20% OR MORE
YELLOW	MEDIUM RISK - HIGH RETURN STOCKS	IF RISKS MANIFEST PRICE CAN FALL 20% & IF INVESTMENT RATIONALE FRUCTFIES PRICE CAN RISE BY 30%	IF RISKS MANIFEST PRICE CAN FALL 20% & IF INVESTMENT RATIONALE FRUCTFIES PRICE CAN RISE BY 35% OR MORE	IF INVESTMENT RATIONALE FRUCTFIES PRICE CAN RISE BY 35% OR MORE
RED	HIGH RISK - HIGH RETURN STOCKS	IF RISKS MANIFEST PRICE CAN FALL 30% & IF INVESTMENT RATIONALE FRUCTFIES PRICE CAN RISE BY 50%	IF RISKS MANIFEST PRICE CAN FALL 30% & IF INVESTMENT RATIONALE FRUCTFIES PRICE CAN RISE BY 50% OR MORE	IF INVESTMENT RATIONALE FRUCTFIES PRICE CAN RISE BY 50% OR MORE

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