

**Diwali  
Muhurat Pick 2021**

**WISH YOU a VERY  
HAPPY AAROGYAWALI  
& a PROGRESSPOROUS  
NEW YEAR!**





**KILITCH DRUGS (INDIA) LTD.**

**INITIATING COVERAGE**

## PHARMA

### BUY

**CMP Rs.164 TARGET Rs.238**

Reuters Code KIDI.BO  
 Bloomberg Code KILD IN  
 BSE Code 524500  
 NSE Symbol KILITCH

Face Value Rs. 10

Market Cap. Rs. 256 Cr

52 Week H/L Rs. 228 / 79

Shares Outstanding 1.56 Cr.

Avg. Daily Vol. (6m) 27,208

Price Performance (%)

1M 3M 6M

(4) (27) 55

200 Days EMA Rs.149

### SHARE HOLDING (%)

Promoters 68.3

FII -

FI/Bank -

Body Corporate 0.9

Public & Others 30.8

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## EXPANSION IN ETHIOPIA LIKELY TO DRIVE TOPLINE GROWTH.

The company has expanded in Addis Ababa, Ethiopia for manufacturing of Cephalosporin Injectables with a manufacturing capacity of 26.4 mn vials per annum with an outlay of ~Rs. 90-95 crore. The expansion is expected to increase the company's sales by Rs. 100 crore with EBITDA margins of 14-15%.

## INDIA BEING A NEW GLOBAL CENTER FOR PHARMA COMPANIES DUE TO THE EFFECT OF CHINA +1 STRATEGY OF VARIOUS MNCS.

According to industry reports in the 2020-2030 period, Indian pharma industry is expected to grow at a compounded annual growth rate (CAGR) of ~12% to reach at US\$130 bn by 2030 from US\$ 41.7 bn in 2020. Though the pharmaceutical industry has grown at a CAGR of approx. 13% over the two decades, in the last decade, the CAGR has been ~ 8.5% and it has currently been ~6.2% over the past five years. India has attracted higher investments in R&D over the last couple of years, hence, total investment in Pharma sector increased from US\$ 100 mn in 2010 to US\$ 2.4 bn in FY20.

## STRONG FUNDAMENTALS TO STEER THE COMPANY ON A GROWTH PATH.

With the strong operating history of more than 43 years and the company is on the path to create a robust presence in Ethiopia. From FY15 to FY21, the turnover grew at a CAGR of ~24%, albeit on a small base, from Rs. 18.94 cr to Rs. 68.40 cr; the company is virtually a debt-free company and holds net cash of Rs. 12 cr. Further, the company's cash accruals are expected to remain healthy over the next two fiscals with stable cash flows.

Y/E Mar	Revenue (Rs. Cr)	EBITDA (Rs. Cr)	PAT (Rs. Cr)	NPM (%)	EPS (Rs.)	P/E (X)	P/BV (X)	EV/EBITDA (X)
FY21	69	5	4	5.5%	2.4	69.2	2.0	49.4
FY22E	93	9	6	6.8%	4.1	40.5	1.9	27.8
FY23E	130	16	11	8.2%	6.8	24.1	1.7	16.8
FY24E	181	23	16	8.9%	10.3	15.9	1.6	11.3



## OUTLOOK & VALUATION

We expect the company to deliver top line growth of 40% for the year FY24E on a YoY basis. Additionally, we expect the company to deliver strong EBITDA and PAT margins of ~12.7% and ~8.9% respectively in FY24E. Our estimates for EPS for the year FY22E, FY23E & FY24E are projected to be Rs.4.1, Rs.6.8 & Rs.10.3 respectively. We have assigned a P/E multiple of ~23X and arrived at a target price of ~Rs.238 that provides an upside of ~45% from the current market price of Rs. 164 within an investment horizon of 18 to 24 months. Hence, we initiate coverage on Kilitch Drugs (India) Ltd with a 'BUY' rating.

## KEY RISK

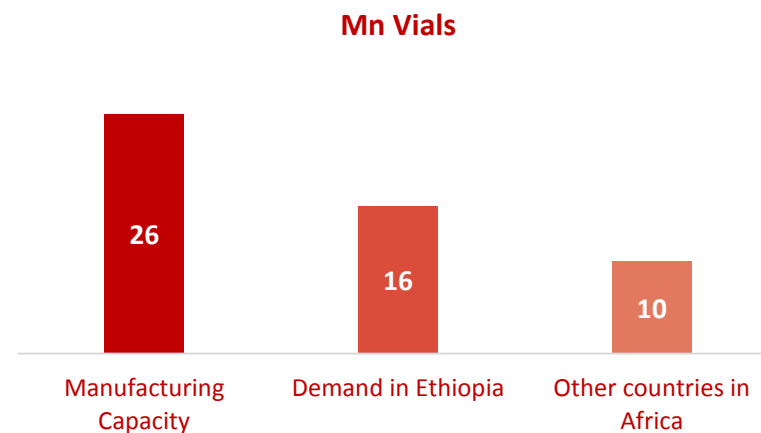
- **Foreign Exchange Fluctuation Risk:** The company is poised to start its operations in Africa and forex translation gain/loss of the subsidiary may have a substantial impact on the financials of the parent.
- **Political Uncertainty:** Ethiopia is not as stable a region as other countries in the world, political uncertainty and social unrest plays an important role in ascertaining the business sustainability of the company.
- **Competition Risk:** The products manufactured by the company are generally off patent and for general usage, this can create competition risk.
- **Price Risk:** The pricing of the products depends on the RM sourced from different parts of the world and their prices tend to fluctuate through the year.

## INVESTMENT RATIONALE- Expansion In Ethiopia Likely To Drive Topline Growth.

Kilitch has joined hands with Estro Import & Export pvt ltd co to setup a manufacturing unit dedicated to produce Cephalosporin injectables along with other oral dosage forms. Initially the allocated land for the facility was 6,700 sqm. and based on the progress and proposal submitted for expansion, Oromia region investment commission has allocated an additional 5,700 sqm. of land, hence total land allocated is 12,400 sqm.

Cephalosporin antibiotics treat a variety of bacterial infections. Some infections that Cephalosporins can be used to treat include respiratory tract infections, otitis media (middle ear infection), strep throat, skin infections, skin structure infections, bone infections, and urinary tract infections. The drug works by preventing bacteria from making cell walls. Stopping cell wall synthesis causes the bacteria to die. Cephalosporins are similar to penicillin. All drugs in the Cephalosporin class are approved by the USFDA (United States Food and Drug Administration) and are available as prescription drugs.

**The company will have a capacity to manufacture 26 mn vial pf Cephalosporin in Ethiopia whereas the demand for this product in the country is only 16-18 mn vials. The company expects to export to other African countries achieve a turnover of Rs.200 crore over the next 1-2 years with an EBITDA margins of ~15% this can help the company achieve high single digit PAT margins.**



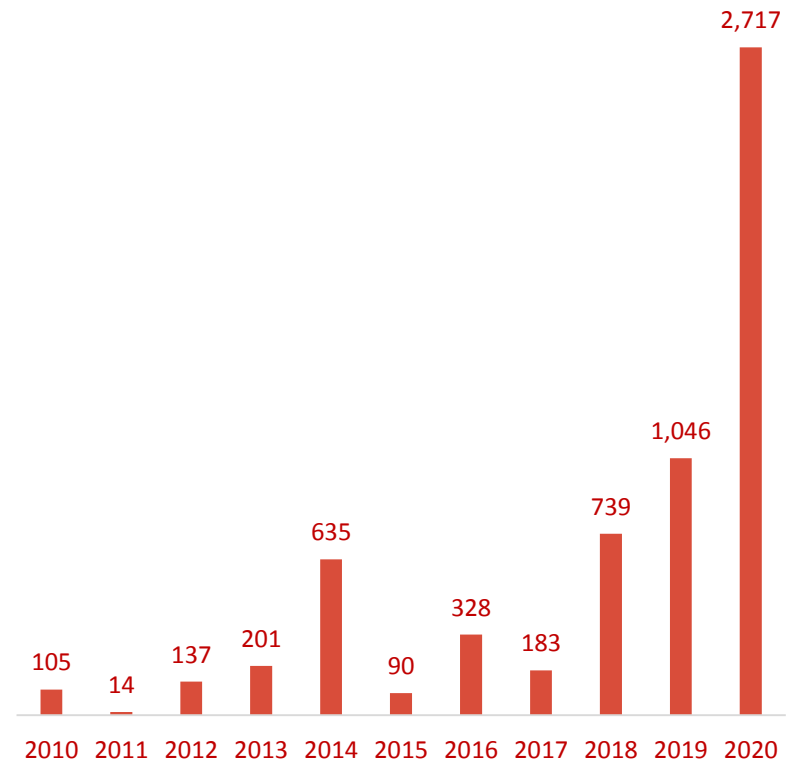
Description	Lines	Capacity per 8 hour Shift
Cephalosporin injections	Vials	1,00,000
Cephalosporin tablets	Tablets	2,00,000
Cephalosporin dry syrups	Bottles	38,400
Cephalosporin capsules	Capsules	38,400
Antiseptics & disinfectants	Bottles	86,40,000

**INVESTMENT RATIONALE- India being a new global center for pharma companies.**

The Indian Pharmaceutical Industry has achieved significant growth in both domestic and global markets during the last five decades. The pharmaceutical industry in India contributes more than 20% by volume of the global generics market and 62% of the global demand for vaccines. The Indian Pharmaceutical Industry ranks third in terms of volume and 14<sup>th</sup> in terms of value globally. The Indian Pharma manufacturers export nearly half of the production, both in terms of volume and value to US, UK, South Africa, Russia and other countries. However, there remains a significant opportunity, largely untapped across Japan, China, Australia, ASEAN Countries, Middle Eastern region, Latin America and other African Countries. Some of the factors impacting lower penetration of these regions are: relatively slower paced entry strategy, regulations emphasizing on local manufacturing, volatility in global market etc. While the global formulations trade value is about US\$652 bn (2019), India’s share of exports in the global trade was only about 2.5%. The global pharmaceutical trade is expected to reach a size of US\$1-1.3 tn by 2030, the ambition is to garner a global share of 6-7% by value to attain a size of ~US\$73 bn.

In the last few years most of the top Indian pharma companies have increased their R&D investments, but investment as a percentage of revenue remains under half of the investment level recorded by the top ten global companies. In addition to the high risk associated with R&D investments in innovative research, market factors such as price controls and patent protections also act as deterrents.

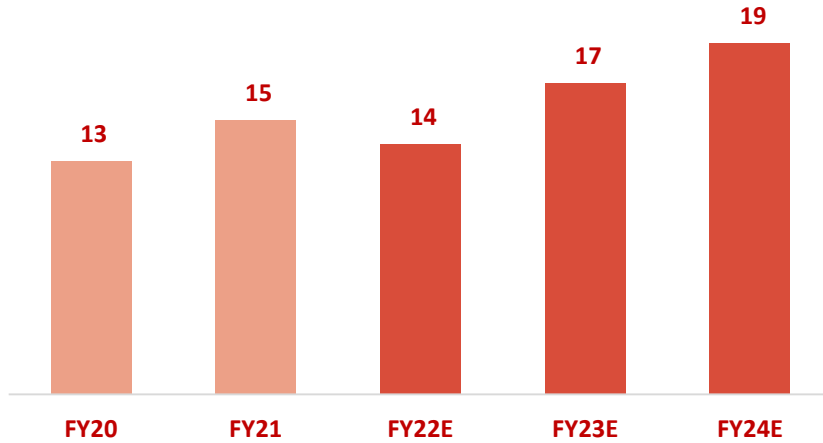
**Investment in Pharma Industry (USD Mn)**



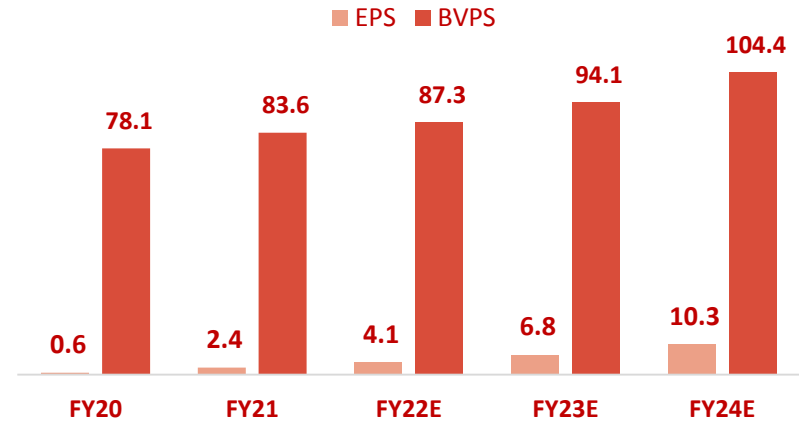
Source: Sushil Finance Research, Company Research

**INVESTMENT RATIONALE- Strong fundamentals to steer the company on a growth path.**

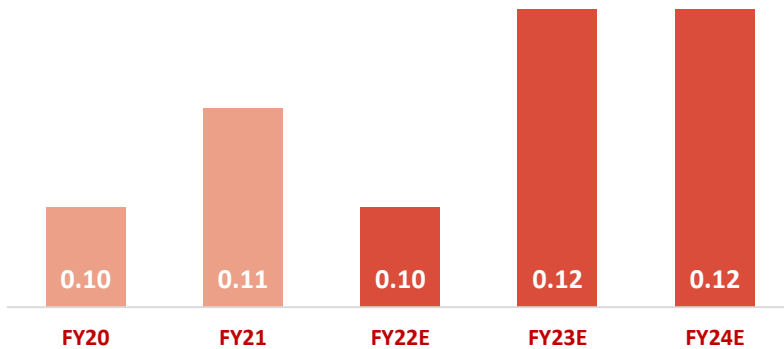
**TOTAL DEBT (Rs. Crs)**



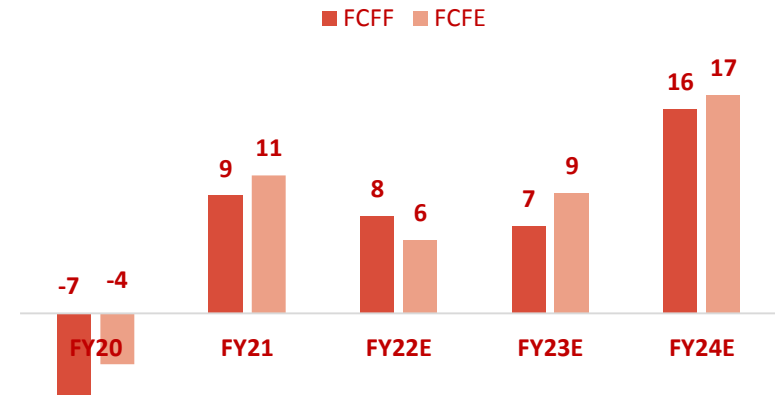
**EPS & BVPS (Rs.)**



**Debt to Equity Ratio (%)**



**FCFF & FCFE (Rs. Crs)**



Source: Sushil Finance Research, Company Research

## COMPANY OVERVIEW

Incorporated in the year 1978 by first generation entrepreneur Late. Mr Pratap Mehta, Kilich has evolved from a small pharma company to a CRM company with multiple drugs in the oral and non oral segment. The company has more than 25 years of experience in the the development, manufacturing and marketing of quality finished dosages. The company has taken steps to build a well diversified business model in terms of markets and products. However, the largest contribution of the business comes from countries in Africa and Asia. Kilitch continues to deliver quality injectables on contract manufacturing for reputed pharmaceutical companies. Kilitch has planned 15 new products to be rolled out in 2021-22 that will increase the company’s market share in the business.

CATEGORY	TYPE OF PRODUCTS
PARENTERALS AND NASAL PRODUCTS	GASTROENTEROLOGY, NSAIDS, ANTIEPILIPTIC, ANTI – INFLAMMATORY, ANTI – MALARIALS, AMINOGLYCOSIDES, ANTI-BACTERIALS, ETC.
ORAL	ORS, CARDIOVASCULAR, ANTIDIABETIC, ARTLUF
EFFERVESSCENT	ROIPAR, DUREGRA, ROIVIT,
NUTRITIONAL PRODUCTS	CELTINE
MEDICAL DEVICES	C-SEAL
COSMETIC AND HERBAL PRODUCTS	OILS, CREAMS, LOTIONS, MELT CAPSULES, BON BON FORTE, ORTHO REHABILITATION & IMPLANTS



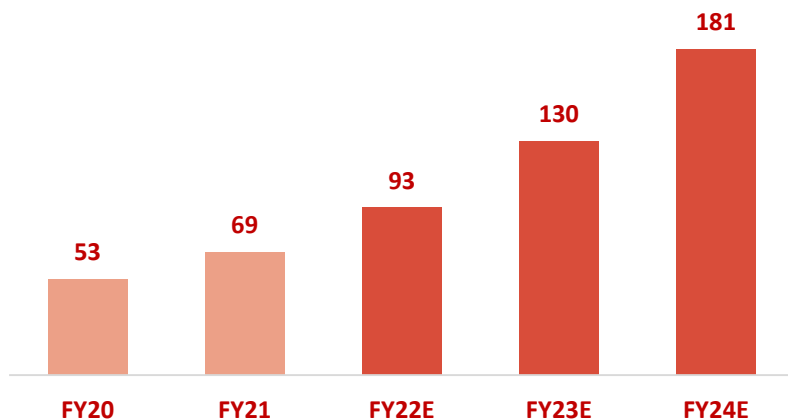
**KEY PRODUCTS**



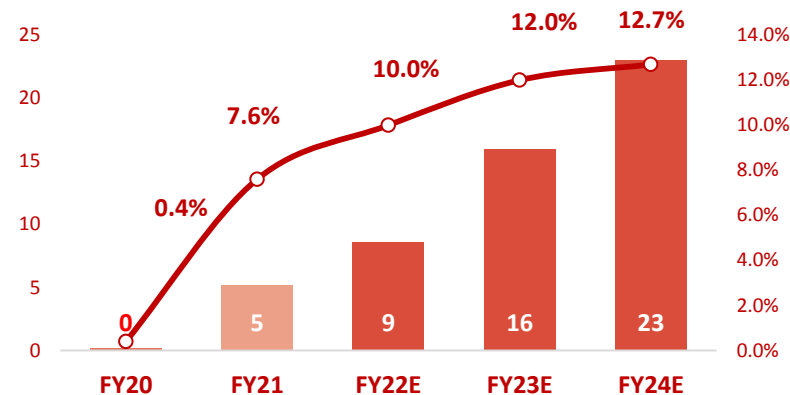
Source: Sushil Finance Research, Company Research



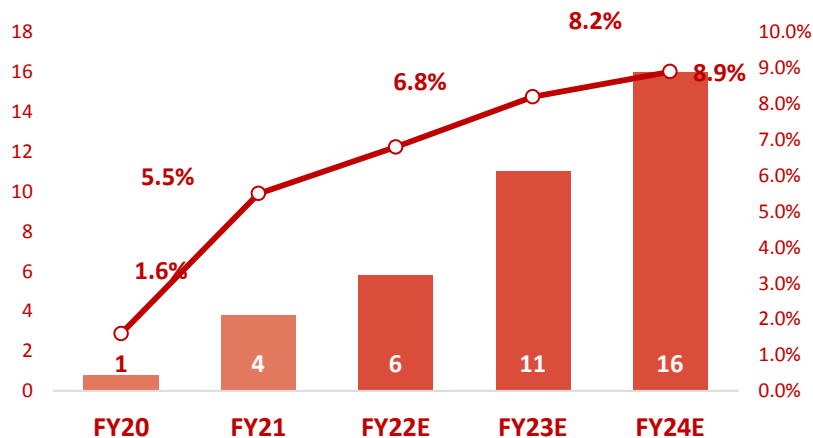
### TOTAL INCOME (RS. Crs)



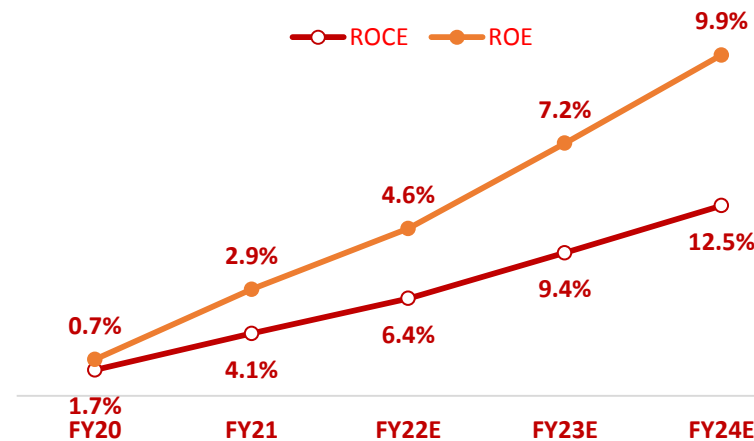
### EBITDA (Rs. Crs) & EBITDA (%)



### NET PROFIT (Rs. Crs) & NP (%)



### ROCE & ROE



Source: Sushil Finance Research, Company Research

## PROFIT & LOSS STATEMENT

(Rs. cr)

Particulars	FY21	FY22E	FY23E	FY24E
<b>Revenue</b>	<b>69</b>	<b>93</b>	<b>130</b>	<b>181</b>
Cost of Goods Sold	42	56	76	102
Employee Cost	5	6	8	11
Other Expenses	16	21	30	45
<b>EBITDA</b>	<b>5</b>	<b>9</b>	<b>16</b>	<b>23</b>
<b>EBITDA (%)</b>	<b>7.6%</b>	<b>10.0%</b>	<b>12.0%</b>	<b>12.7%</b>
Depreciation	2	3	3	3
Finance Cost	1	1	1	1
Other Income	3	3	3	3
<b>PBT (as reported)</b>	<b>5</b>	<b>9</b>	<b>14</b>	<b>22</b>
Tax	1	2	4	6
<b>PAT</b>	<b>4</b>	<b>6</b>	<b>11</b>	<b>16</b>
<b>PAT (%)</b>	<b>5.5%</b>	<b>6.8%</b>	<b>8.2%</b>	<b>8.9%</b>
<b>EPS</b>	<b>2.4</b>	<b>4.1</b>	<b>6.8</b>	<b>10.3</b>

## BALANCE SHEET STATEMENT

(Rs. cr)

Particulars	FY21	FY22E	FY23E	FY24E
PP&E (Incl CWIP)	73	75	76	78
Other Non Current Assets	49	55	64	77
Inventory	4	5	9	9
Trade Receivables	23	25	34	32
Cash & Cash Equivalent	13	11	11	15
Other Current Assets	41	42	48	53
<b>Total</b>	<b>203</b>	<b>214</b>	<b>242</b>	<b>263</b>
Share Capital	15	15	15	15
Other Reserves	112	118	129	145
Minority Interest	2	2	2	2
Long Term Debt	0	0	0	0
Short Term Debt	15	14	17	19
Other Non Current Liabilities	0	0	1	1
Trade Payables	54	58	71	71
Other Current Liabilities	5	6	7	10
<b>Total</b>	<b>203</b>	<b>214</b>	<b>242</b>	<b>263</b>

Source: Sushil Finance Research, Company Research



## CASH FLOW STATEMENT

(Rs. cr)

Particulars	FY21	FY22E	FY23E	FY24E
Profit before tax	5	9	14	22
Depreciation & Amortization	2	3	3	3
Finance Cost	1	1	1	1
Provision for Taxes	(1)	(2)	(4)	(6)
Changes in Working Capital	34	1	(5)	1
Other Adjustments	5	0	0	0
<b>Cash Flow from Operating Activities</b>	<b>46</b>	<b>12</b>	<b>10</b>	<b>21</b>
(Incr)/ Decr in PP&E (incl. CWIP)	(37)	(5)	(4)	(5)
Changes in Non Current Assets	(1)	(6)	(9)	(12)
Other Adjustments	0	0	0	0
<b>Cash Flow from Investing</b>	<b>(38)</b>	<b>(11)</b>	<b>(13)</b>	<b>(18)</b>
Changes in Debt	2	(1)	3	2
Changes in Share Capital	0	0	0	0
Finance Cost	(1)	(1)	(1)	(1)
Changes in Non Current Liabilities	(0)	0	0	0
Dividend & Corporate Div. Tax paid	0	0	0	0
Other Adjustments	0	0	0	0
<b>Cash Flow from Financing</b>	<b>2</b>	<b>(2)</b>	<b>3</b>	<b>1</b>
Incr/(Decr) in Balance Sheet Cash	10	(1)	(0)	4
Cash at the Start of the Year	3	13	11	11
<b>Cash at the End of the Year</b>	<b>13</b>	<b>11</b>	<b>11</b>	<b>15</b>

## FINANCIAL RATIOS STATEMENT

Particulars	FY21	FY22E	FY23E	FY24E
<b>Growth (%)</b>				
Revenue	28.5%	35.0%	40.0%	40.0%
EBITDA	2543.7%	78.1%	68.0%	48.2%
PAT	348.2%	67.3%	67.8%	51.9%
<b>Profitability (%)</b>				
EBITDA Margin	7.6%	10.0%	12.0%	12.7%
PAT Margin	5.5%	6.8%	8.2%	8.9%
ROCE	4.1%	6.4%	9.4%	12.5%
ROE	2.9%	4.6%	7.2%	9.9%
<b>Per Share Data</b>				
EPS	2.4	4.1	6.8	10.3
BVPS	83.6	87.3	94.1	104.4
Sales per share	44.2	59.4	83.2	116.5
<b>Gearing Ratio</b>				
Debt/Equity	0.11	0.10	0.12	0.12
<b>Valuations (x)</b>				
P/E	69.2	40.5	24.1	15.9
P/BV	2.0	1.9	1.7	1.6
P/Sales	3.7	2.8	2.0	1.4
EV / EBITDA	49.4	27.8	16.8	11.3
<b>Turnover Days</b>				
Debtors Days	122	100	95	90
Inventory Days	19	20	25	25
Creditors Days	286	230	200	200
<b>WC Cycle</b>	<b>(145)</b>	<b>(110)</b>	<b>(80)</b>	<b>(85)</b>
<b>Others</b>				
Current Ratio	1.4	1.3	1.3	1.3
Quick Ratio	1.3	1.2	1.2	1.2
Interest Coverage	7.8	9.4	15.0	22.3

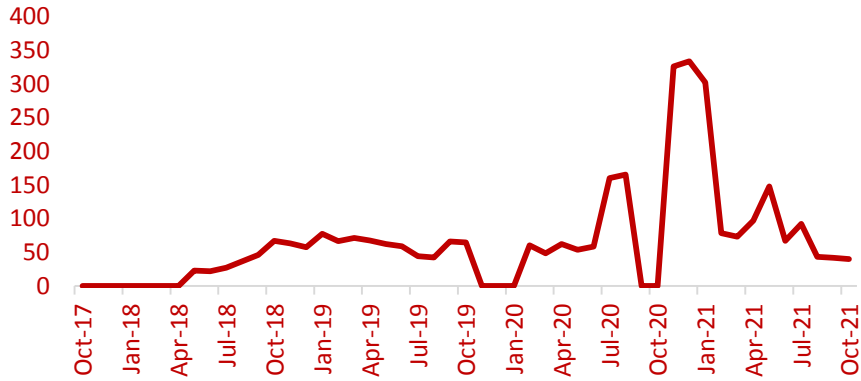
Source: Sushil Finance Research, Company Research

## Q1-FY22 PERFORMANCE

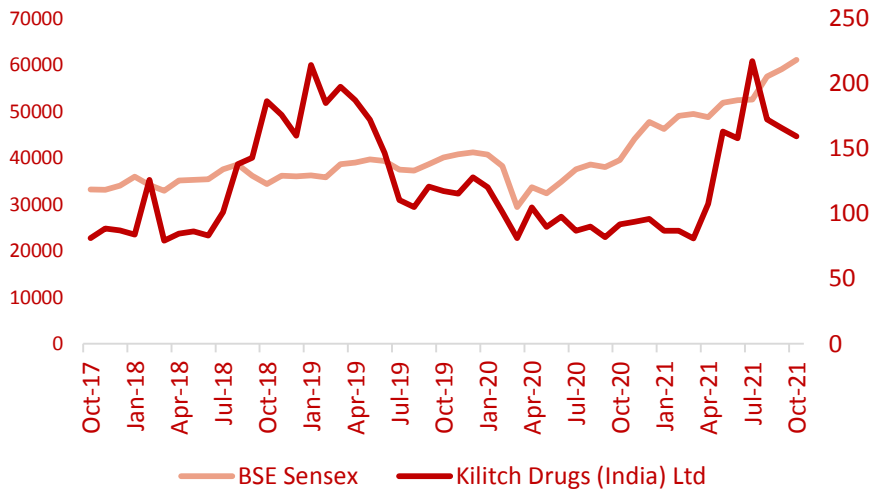
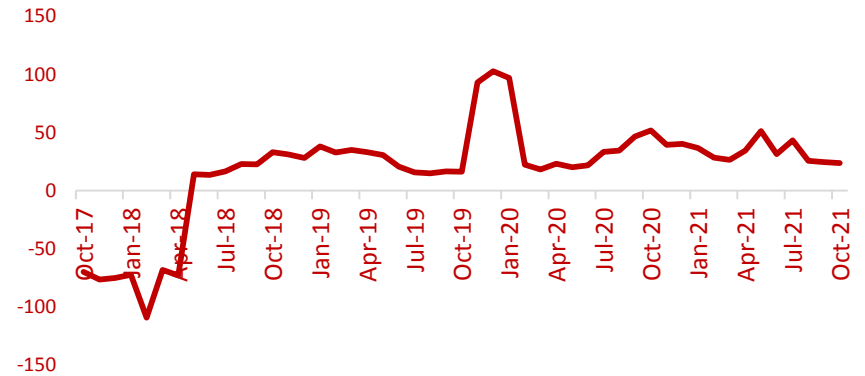
Particulars (Rs. Crore)	Q1FY22	Q4FY21	QoQ	Q1FY21	YoY
Net Sales	19.6	19.9	(1.5%)	10.2	92.6%
Cost of goods sold	11.0	11.4	(3.7%)	7.2	52.2%
Employee Cost	1.4	1.3	4.6%	1.2	22.1%
Other Expenses	6.3	6.8	(7.6%)	2.9	115.9%
<b>EBITDA</b>	<b>0.9</b>	<b>0.3</b>	<b>174.0%</b>	<b>(1.1)</b>	<b>NA</b>
<b>EBITDA Margin (%)</b>	<b>4.6%</b>	<b>1.7%</b>	<b>295 Bps</b>	<b>(10.9%)</b>	<b>NA</b>
Other Income	1.1	1.5	(30.1%)	0.4	185.2%
Depreciation	0.4	0.5	(11.8%)	0.5	(8.5%)
<b>EBIT</b>	<b>1.5</b>	<b>1.3</b>	<b>13.5%</b>	<b>(1.2)</b>	<b>NA</b>
Finance Cost	0.1	0.2	(21.1%)	0.3	(56.5%)
<b>PBT</b>	<b>1.4</b>	<b>1.2</b>	<b>18.3%</b>	<b>(1.5)</b>	<b>NA</b>
Tax Expenses	0.7	0.5	44.4%	(0.2)	(455.0%)
<b>PAT</b>	<b>0.7</b>	<b>0.7</b>	<b>1.3%</b>	<b>(1.3)</b>	<b>NA</b>
<b>PAT Margin (%)</b>	<b>3.7%</b>	<b>3.6%</b>	<b>10 Bps</b>	<b>(13.1%)</b>	<b>NA</b>
<b>EPS (Rs.)</b>	<b>0.8</b>	<b>0.5</b>	<b>65.2%</b>	<b>(0.9)</b>	<b>NA</b>

MARKET INFORMATION

Price to Earning



EV to PBIDT



Price Chart

Source: Sushil Finance Research, Company Research

**Rating Scale :** This is a guide to the rating system used by our Institutional Research Team. Our rating system comprises of three rating categories.

**Total Expected Return Matrix (Rating and Return)**

**BUY : Over 12%**

**HOLD : 0% to 12%**

**SELL : 0% to -12%**

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Analyst Stock Ownership	Yes
Stock Recommended to Clients	Yes
Remuneration/Benefits received from company in 12 months	No
Merchant Banking Market Making activities / projects	No
Sushil Financial Services Pvt. Ltd and Group Companies Holding	No
Sushil Financial Services Pvt. Ltd and Group Directors Holding	Yes
Broking Relationship with the company covered	No