



KILITCH DRUGS (INDIA) LTD.

RE-INSTATING COVERAGE REPORT

KILITCH DRUGS (INDIA) LTD.

Market Cap.

Rs.618 Crs.

52 Week H/L

Rs.470 / 136

CMP

Rs. 384

Target Price

Rs. 466

PHRM

STOCK DATA

BUY

Reuters Code	KIDI.BO	
Bloomberg Code	KILD IN	
BSE Code	524500	
NSE Symbol	KILITCH	
Face Value	Rs.10	
Shares Outstanding	1.61 Cr	
Avg. Daily Vol. (6m)	16,896	
Price Performance (%)		
1M	3M	6M
(7)	(4)	50

200 Days EMA Rs.312

SHARE HOLDING (%)

Promoters	69.2
FII	-
FI/MF	-
Body Corporate	1.0
Public & Others	29.8

RESEARCH ANALYST

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FRESH ORDERS FROM ETHIOPIA LIKELY TO DRIVE COMPANY'S FUTURE GROWTH.

The company has expanded in Addis Ababa, Ethiopia for manufacturing of Cephalosporin Injectable. KDIL has one of the largest capacities in Ethiopia with a manufacturing capacity of ~26.4 mn vials per annum. The expansion is expected to increase the company's revenues by ~Rs. 200 crore with EBITDA margins of 18-20%. Further, the company's subsidiary has received an order in February 2024, in Ethiopia to the tune of USD 9.13 mn which is to be executed within 6 months of order received. The company is likely to witness further new order inflows from the export market.

STRONG FUNDAMENTALS ALONG WITH CAPEX PLANS TO STEER THE COMPANY ON A GROWTH PATH.

The company has a strong operating history of over 4 decades and the company is on the path to create a robust presence in Ethiopia. The company is currently undergoing a capex in Khapoli, Maharashtra to the tune of ~Rs.100-120 crore which is likely to be completed by FY25. From FY19 to FY23, the turnover grew at a CAGR of ~14%, from Rs. 82.5 cr to Rs. 139.5 cr; the company is virtually a debt-free company and holds net cash (including investments) of Rs. 60 cr. Further, the company's cash accruals are expected to remain healthy over the next two fiscals with stable cash flows back by domestic and international demand.

INDIA BEING A NEW GLOBAL CENTER FOR PHARMA COMPANIES

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 2021. 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.

Y/E Mar	Revenue (Rs. Cr)	EBITDA (Rs. Cr)	EBITDA Margin (%)	PAT (Rs. Cr)	NPM (%)	EPS (Rs.)	P/E (X)	P/S (X)	P/BV (X)
FY22	114.2	10.4	9.1%	6.2	5.4%	4.0	96.3	5.4	4.3
FY23	139.6	17.6	12.6%	8.3	5.9%	5.3	72.2	4.4	3.9
FY24E	164.7	23.4	14.2%	11.8	7.1%	7.3	52.5	3.7	3.8
FY25E	222.4	37.4	16.8%	19.1	8.6%	11.9	32.3	2.8	3.4
FY26E	293.5	49.5	16.9%	24.6	8.4%	15.3	25.1	2.1	3.0

OUTLOOK & VALUATION

We expect the company to deliver top line growth of ~110% for the year FY26E over FY23, backed by pickup in new orders from Ethiopia. Additionally, we expect the company to deliver strong EBITDA and PAT margins of ~17.1% and ~8.3% respectively in FY26E. Our estimates for EPS for the year FY24E, FY25E & FY26E are projected to be Rs. 7.3, Rs. 11.9 & Rs. 15.3 respectively. We have assigned a P/E multiple of 30X and arrived at a target price of Rs.466 that provides an upside of ~21% from the current market price of Rs. 384 with an investment horizon of 24 to 30 months. Hence, we reinstate coverage on Kilitch Drugs (India) Ltd with a 'BUY' rating.

KEY RISK

- **Foreign Exchange Fluctuation Risk:** The company has started 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.

COMPANY OVERVIEW

Incorporated in the year 1978 by first generation entrepreneur Late. Mr Pratap Mehta, Kilitch has evolved from a small pharma company to a CRM company with multiple drugs in the oral and non-oral segment. The company is currently promoted by Mr. Mukund Mehta, Mr. Bhavin Mehta, Mrs. Mira Mehta and other. The company has more than 25 years of experience in 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. The company’s product portfolio comprises of over 600 products (registered) across the world and 450 under registration as on 31 March 2023.

Further, Kilitch has planned capex of around Rs.100-120 crore to increase the capacity that will increase the company’s revenues and market share in the business. The facility to produce Oral Tablets having capacity approx. 260 million per year, Liquid Injectable Vials with an capacity approx. 31 million per year, Liquid Injectable Ampules - approx. 47 million per year, Ophthalmic Drops approx. 21.4 million per year and Nasal Drops – approx. 21.4 million per year.

CATEGORY	TYPE OF PRODUCTS
PARENTERALS AND NASAL PRODUCTS	GASTROENTEROLOGY, NSAIDS, ANTIEPILEPTIC, ANTI – INFLAMMATORY, ANTI – MALARIALS, AMINOGLYCOSIDES, ANTI-BACTERIALS, ETC.
ORAL	ORS, CARDIOVASCULAR, ANTIDIABETIC, ARTLUF
EFFERVESCENT	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

Source: Sushil Finance Research, Company Research

KEY PRODUCTS



Source: Sushil Finance Research, Company Research



INVESTMENT RATIONALE – Fresh Orders from export market coupled with Capex in Domestic Market Likely to propel 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 has one of the largest manufacturing capacities in Ethiopia of ~26.4 mn vials per annum. The company expects to generate revenues, by exports to other African countries as well, in the range of Rs.200 crore with EBITDA margins likely to remain between 18%-20%. Further, the company's subsidiary has received a tender order amounting to USD 9.13 million from Ethiopian Pharmaceutical Supply Service of the Federal Democratic Republic of Ethiopia, with a stipulated timelines of 6 months.

The company has achieved a total revenues of Rs.140 crore in FY23 with EBITDA margins of 12.6% and PAT margins at 5.9%. The company has planned a capacity expansion in Khapoli, Maharashtra of around Rs.100-120 crores which is likely to complete by March 2025. We expect, the company to generate additional revenues from Q1FY26 to tune of Rs.50-75 crore.

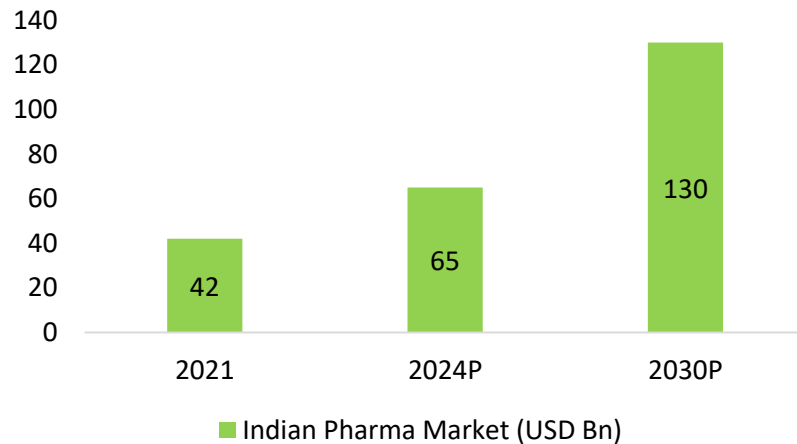
- **Large order of USD 9.13 mn from Ethiopia to propel exports**
- **Domestic business growth to steer additional support from Capex in Khapoli**

INVESTMENT RATIONALE- India to Become a New Global Hub for Pharma Companies

India is the largest provider of generic drugs globally and is known for its affordable vaccines and generic medications. The Indian Pharmaceutical industry is currently ranked third in pharmaceutical production by volume after evolving over time into a thriving industry growing at a CAGR of 9.43% since the past nine years. Indian pharmaceutical sector supplies over 50% of global demand for various vaccines, 40% of generic demand in the US and 25% of all medicine in the UK. The domestic pharmaceutical industry includes a network of 3,000 drug companies and ~10,500 manufacturing units. India enjoys an important position in the global pharmaceuticals sector. The country also has a large pool of scientists and engineers with a potential to steer the industry ahead to greater heights. Presently, over 80% of the antiretroviral drugs used globally to combat AIDS (Acquired Immune Deficiency Syndrome) are supplied by Indian pharmaceutical firms. India is rightfully known as the "pharmacy of the world" due to the low cost and high quality of its medicines.

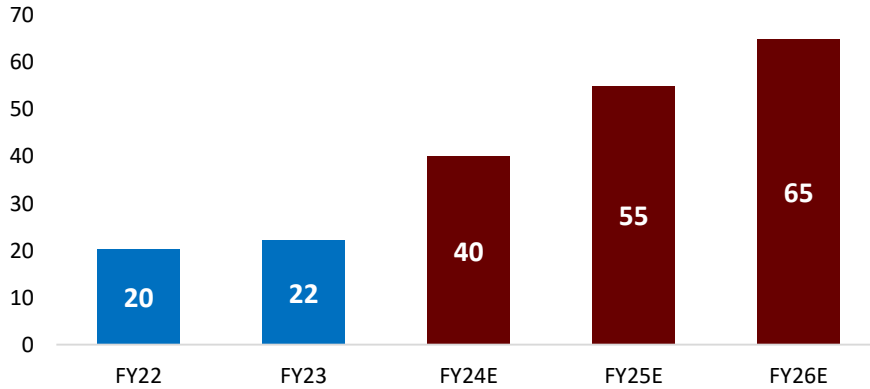
Market size of India pharmaceuticals industry is expected to reach US\$ 65 billion by 2024, and ~US\$ 130 billion by 2030. According to the government data, the Indian pharmaceutical industry is worth approximately US\$ 50 billion with over US\$ 25 billion of the value coming from exports. About 20% of the global exports in generic drugs are met by India. India is among the top 12 destinations for biotechnology worldwide and 3rd largest destination for biotechnology in Asia Pacific. In 2022, India's Biotechnology industry has crossed US\$ 80.12 billion, growing 14% from the previous year. The Indian pharmaceutical industry has seen a massive expansion over the last few years and is expected to reach about 13% of the size of the global pharma market while enhancing its quality, affordability, and innovation.

Indian Pharma Market (USD Bn)

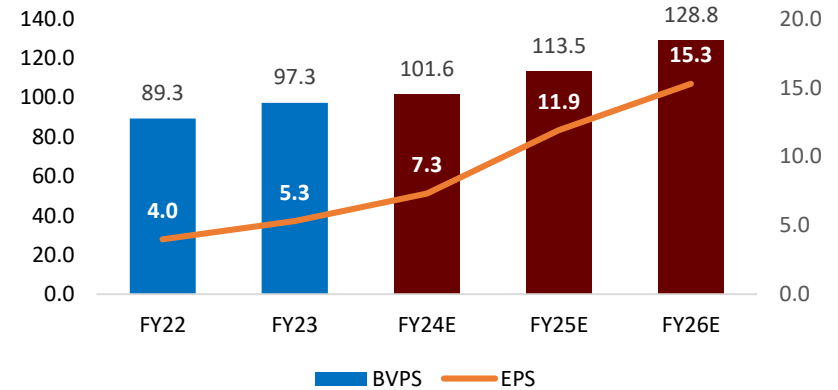


INVESTMENT RATIONALE- Strong Fundamentals to Steer the Company on a Growth Path.

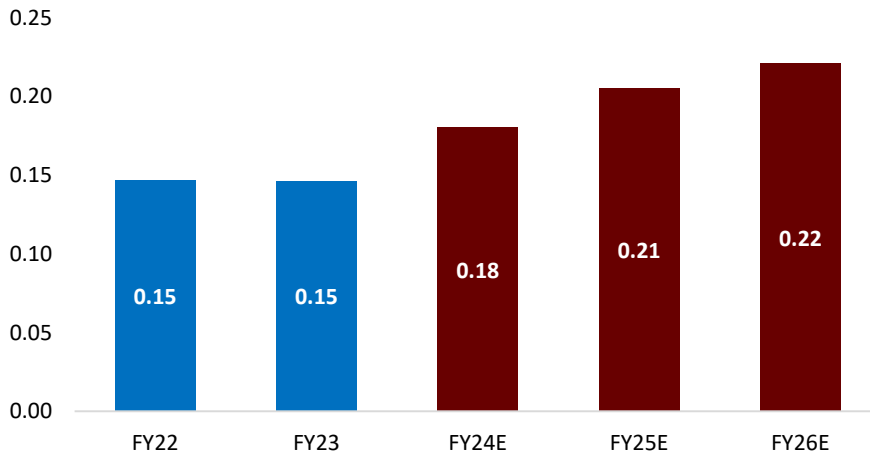
Total Debt (Rs. Crs)



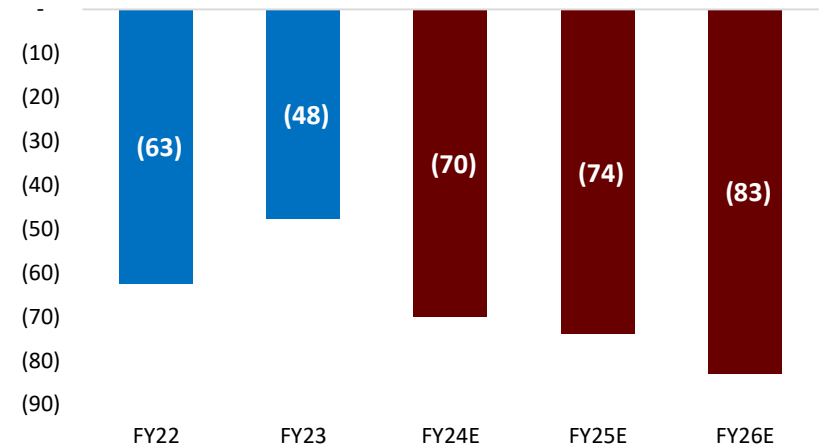
EPS & BVPS (Rs.)



Debt to Equity Ratio (x)

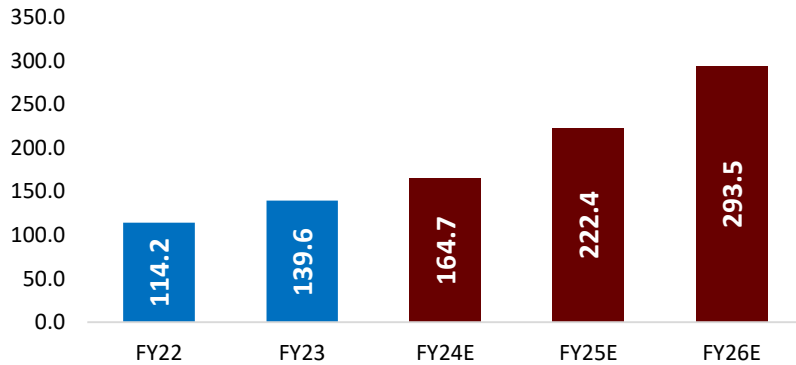


Net Working Capital Cycle (days)

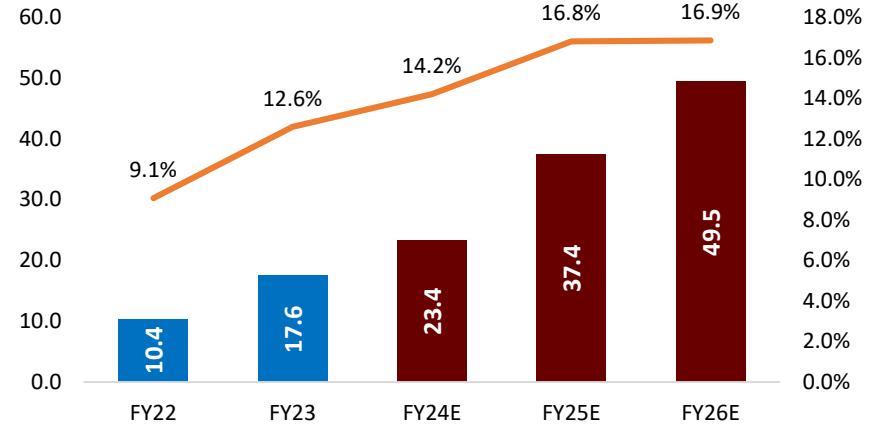


Source: Sushil Finance Research, Company Research

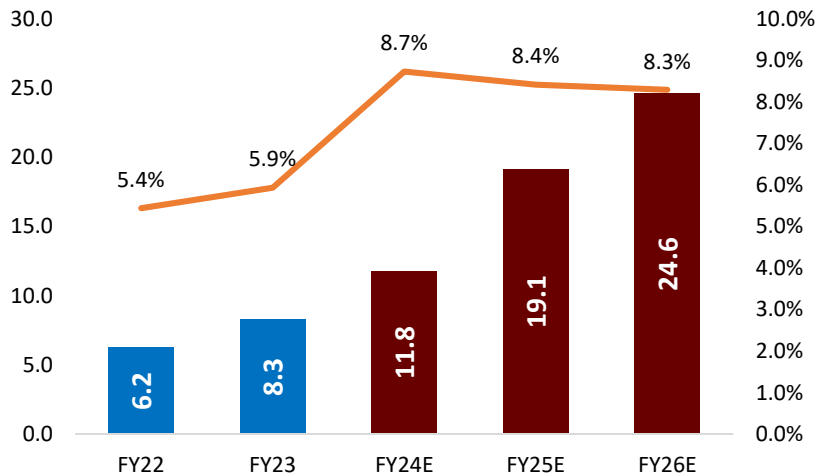
Total Income (Rs. Crs)



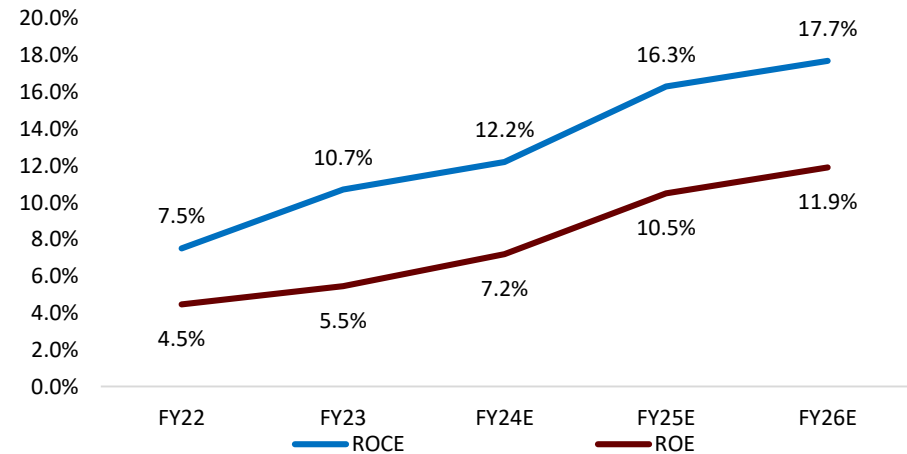
EBITDA (Rs. Crs) & EBITDA (%)



Net Profit (Rs. Crs) & Net Profit (%)



ROCE & ROE



Source: Sushil Finance Research, Company Research

PROFIT & LOSS STATEMENT

(Rs. cr)

Y/E Mar.	FY22	FY23	FY24E	FY25E	FY26E
Revenue	114	140	165	222	294
Raw Material Cost	71	75	82	110	144
Employee Cost	6	12	14	19	26
Other Expenses	27	36	46	57	74
EBITDA	10	18	23	37	49
<i>EBITDA Margin (%)</i>	<i>9.1%</i>	<i>12.6%</i>	<i>14.2%</i>	<i>16.8%</i>	<i>16.9%</i>
Depreciation	2	4	4	4	7
EBIT	8	14	20	33	42
<i>EBIT Margin (%)</i>	<i>6.9%</i>	<i>10.0%</i>	<i>12.0%</i>	<i>14.8%</i>	<i>14.4%</i>
Finance Costs	1	5	6	9	10
Other Income	3	3	3	3	3
Profit before Tax	10	12	17	27	35
Tax Expense	4	4	5	8	11
Net Profit	6	8	12	19	25
<i>Net Margin (%)</i>	<i>5.4%</i>	<i>5.9%</i>	<i>7.1%</i>	<i>8.6%</i>	<i>8.4%</i>
EPS	4.0	5.3	7.3	11.9	15.3

Source: Sushil Finance Research, Company Research

BALANCE SHEET STATEMENT

(Rs. cr)

Y/E Mar.	FY22	FY23	FY24E	FY25E	FY26E
PP&E (incl. CWIP)	46	47	89	139	159
Right of Use Assets / Investment Property	-	-	-	-	-
Other Non-Current	23	22	22	22	22
Inventories	5	2	3	6	10
Trade Receivables	41	54	61	83	110
Cash and Bank Balances	10	20	9	6	13
Other Current Assets	84	73	73	55	60
Total Assets	209	220	258	313	376
Equity Share Capital	16	16	16	16	16
Reserves & Surplus	124	136	148	167	192
Borrowings (LT)	-	-	-	-	-
Other Non-Current Liabilities	-	-	-	-	-
Trade Payables	43	41	49	69	97
Other Financial Liabilities	0	0	0	0	0
Current Borrowings	20	22	40	55	65
Other Current Tax Liab & Provisions	6	6	7	7	8
Total Liabilities	209	221	259	314	377

Source: Sushil Finance Research, Company Research

CASH FLOW STATEMENT

(Rs. cr)

Y/E Mar.	FY22	FY23	FY24E	FY25E	FY26E
PBT	10	12	17	27	35
Depreciation	2	4	4	4	7
Interest	1	5	6	9	10
CFO before Working Cap chg	13	20	26	41	53
Chg in Inventories	(1)	3	(1)	(3)	(4)
Chg in Trade Receivables	(18)	(13)	(7)	(22)	(27)
Chg in Trade Payables	(11)	(2)	8	20	28
Chg in Current Assets & Liabilities					
Income Taxes Paid	(4)	(4)	(5)	(8)	(11)
Cash Flow from Operations	6	3	27	36	49
Interest Paid	(1)	(5)	(6)	(9)	(10)
Dividend Paid	-	-	-	-	-
Other Adjustments	12	8	18	12	6
Cash Flow from Financing	7	(1)	7	(5)	(15)
Capital Expenditure	25	(5)	(45)	(55)	(27)
Other Adjustments	(40)	12	-	22	-
Cash Flow from Investing	(15)	8	(45)	(33)	(27)
Opening Cash	13	10	20	9	6
Total Cash Flow	(2)	10	(11)	(3)	7
Closing Cash	10	20	9	6	13

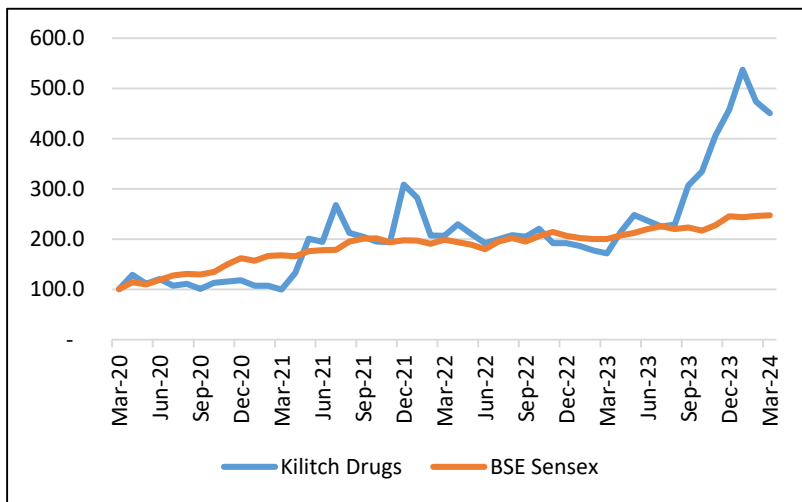
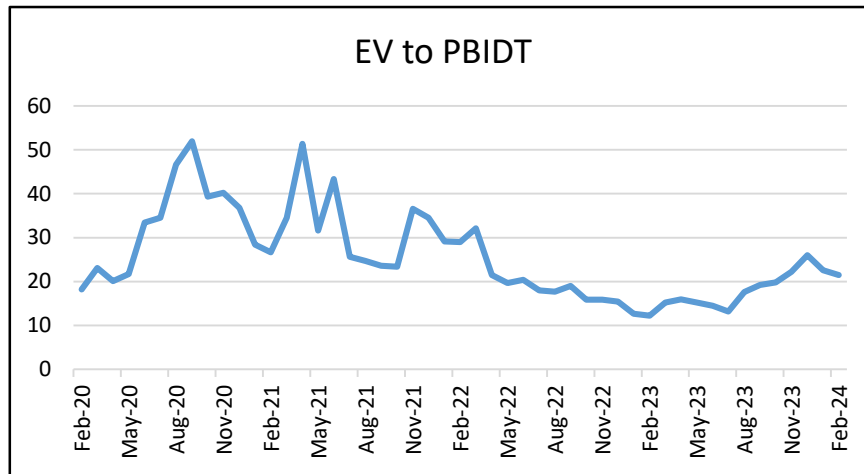
Source: Sushil Finance Research, Company Research

FINANCIAL RATIOS STATEMENT

Y/E Mar.	FY22	FY23	FY24E	FY25E	FY26E
<u>Growth (%)</u>					
Revenue	66.7%	22.2%	18.0%	35.0%	32.0%
EBITDA	99.6%	69.4%	33.2%	59.7%	32.4%
Net Profit	64.9%	33.3%	42.0%	62.8%	28.5%
<u>Profitability (%)</u>					
EBITDA Margin	9.1%	12.6%	14.2%	16.8%	16.9%
Net Profit Margin	5.4%	5.9%	7.1%	8.6%	8.4%
ROCE	7.5%	10.7%	12.2%	16.3%	17.7%
ROE	4.5%	5.5%	7.2%	10.5%	11.9%
<u>Per Share Data (Rs.)</u>					
EPS	4.0	5.3	7.3	11.9	15.3
BVPS	89.3	97.3	101.6	113.5	128.8
CEPS	5.6	7.6	9.5	14.7	19.8
<u>Valuation (x)</u>					
P/E	96.3	72.2	52.5	32.3	25.1
P/BV	4.3	3.9	3.8	3.4	3.0
EV/EBITDA	39.0	23.0	24.6	15.4	11.7
P/Sales	5.4	4.4	3.7	2.8	2.1
<u>Turnover</u>					
Inventory days	26	10	15	20	25
Debtor days	132	142	135	136	137
Creditor days	221	200	220	230	245
<u>Gearing (x)</u>					
D/E	0.1	0.1	0.2	0.2	0.2

Source: Sushil Finance Research, Company Research

MARKET INFORMATION



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 : -12% to 12%

SELL : Below -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