

Kilitch Drugs (India) Limited

BSE Code: 524500 | CMP : ₹183.80 | Face Value : ₹10 | Target price: ₹275 | HP* : Two years

About the company

Our Pearl Pick for the month of February is Kilitch Drugs (India) Limited. The company is engaged into the development and operations of its pharmaceutical business. It manufactures injectables and OTC products in India and markets it in African countries. The company is mainly focused in the Indian, African and European markets. The company's exports comprise 90% of its revenue.

Why to invest

Plans to start manufacturing operations in Ethiopia, Africa : The company has planned to set up Ethiopia's first state-of-the-art cephalosporin injectable plant having a capacity of 20 million vials. Cephalosporin injectables are majorly used to treat a wide variety of bacterial infections, such as respiratory tract infections, skin infections and urinary tract infections.

Besides vials, the plant will also produce tablets, capsules, dry syrups, etc. The plant will significantly boost the company's presence in the African markets in terms of improved margins and high capacity. Also, the company expects 25% mark up in the sales from this plant and hopes to sell the entire production without any gestation period as the government will purchase 15 million vials. The plant has reached 70% completion and it is likely to commence by August 2019.

Favourable market conditions : The consumption of Ethiopian market is nearly 25 million vials and the company is targeting the same. This investment will have strong government support as the manufactured medications will replace imports from other countries.

The demand for pharmaceuticals is huge in Ethiopia with the occurrence of many underdiagnosed and undertreated diseases. With rising income levels, growing health awareness and better access to healthcare, the country offers significant growth potential for the company's products.

Strong client base : The company has a strong client base like Ranbaxy, Zydus Cadila, Glenmark Pharma, Ajanta Pharma, Lupin etc. The strong and constant client base would help to drive the revenue going ahead.

Widely accepted products : The company's major products are Roipar, which is paracetamol, Roivit, which is energy booster, 'PH7' which is antacid, 'C-seal' which is topical skin adhesive, 'SRO Zinc' kit, which contains oral rehydration sources used in diarrhoea, '9-VIT' which is a multi-vitamin tablet containing 9 vitamins and HPure, which helps in fast relief from sore throat and cough. These ailments are so commonplace that the medicines can be obtained over the counter (OTC) or bought off-the-shelves in stores. In other words, they can be procured without a doctor's prescription.

Management Commentary

Going ahead, the company is planning to register more than 500 products (currently >250 products) in the African markets by FY2020 as Africa is highly profitable market. With rising focus in Africa, the management expects to generate topline of Rs.500 crore in the next five years. Also, with the sole concentration on its upcoming plant, the management will look forward to replicating the Ethiopian model in the rest of Africa.

* HP : Holding Period

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CIN No. : CIN-U22120MH2003PTC139276 SEBI Registration No: INA000001142

DSJI INVESTMENT ADVISORY UNIT (CRU)

Robust Financial Performance

During the recent quarter ended December 31, 2018, the standalone revenue came in at Rs. 19.65 crore as against Rs. 13.1 crore in the corresponding quarter last year, registering 50% yoy increase. The EBITDA for the quarter jumped by 117.6% yoy to Rs. 4.83 crore as against Rs. 2.22 crore in the corresponding quarter last year, with a corresponding margin expansion of 763 bps. EBITDA margin for the quarter stood at 24.6% vs 16.9% in Q3FY18. The PAT for the quarter came in at Rs. 3.46 crore as against Rs. 1.8 crore in the corresponding quarter last year, an increase of 92.2% yoy. The company is a zero-debt company and has no plans to raise any debt.

Investing in the stock

The company has a share capital of Rs. 13.73 crore, with promoters' holdings at 69.25 per cent. Therefore, the available free float comes to 0.43 crore shares. The two-week average traded quantity comes to around 13,000 shares. We urge our investors to enter the stock in a staggered manner and accumulate as per the table given below.

Price	Accumulation
170-175	20 per cent
160-170	40 per cent
145-160	20 per cent
<145	20 per cent

Valuation and outlook

The company is trading at a TTM P/E of 19.60x with TTM EPS of Rs. 9.38. Going ahead, the setting up of cephalosporin injectable plant would drive the revenue as the company is confident of selling the entire range without any gestation period. Also, the rising focus on capturing African markets would drive the growth going ahead. Further, in view of the favourable African markets, coupled with continued healthy financial performance, we see an upside of 50 per cent with a target price of Rs 275 over the next two years.

Inc/Exp Statement(Standalone) (Rs in Crore)

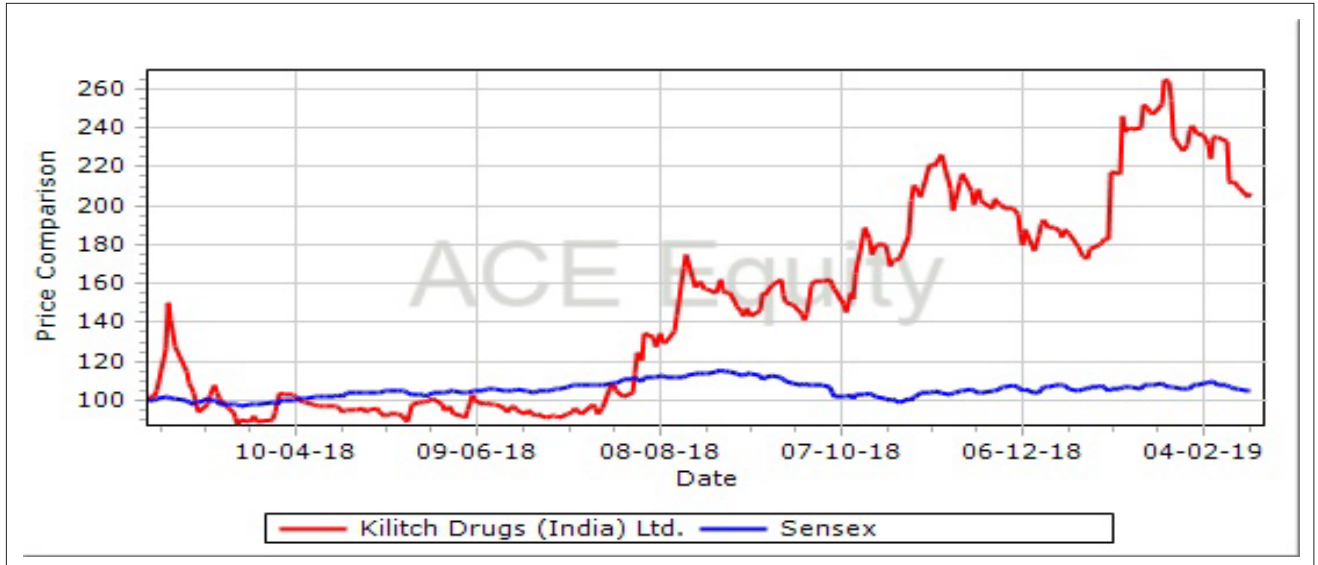
Description	201803	201703	201603	201503	201403
Net Sales	50.46	28.14	21.02	19.03	14.90
Total Income	53.63	29.72	23.76	21.72	21.19
Total Expenditure	44.88	28.71	24.57	20.66	18.65
PBIDT	8.76	1.01	-0.82	1.06	2.54
PAT	6.20	-0.04	-2.05	-0.19	1.18
Dividend %	5.00				
Adj. EPS(Rs)	4.51	-0.03	-1.55	-0.14	0.89

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201812	201809	Q on Q Var%	201712	Y on Y Var%
Net Sales	19.33	26.72	-27.67	13.05	48.05
Total Expenditure	14.82	22.19	-33.22	10.88	36.18
PBIDT (Excl OI)	4.51	4.53	-0.46	2.17	107.50
PAT	3.46	4.49	-22.89	1.80	92.59
PBIDTM% (Excl OI)	23.33	16.95	37.64	16.65	40.12
PBIDTM%	25.02	24.02	4.16	17.04	46.83
PATM%	17.90	16.79	6.61	13.76	30.09
Adj. EPS(Rs)	2.25	2.92	-22.95	1.36	65.44

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