

The CUB Series

Kilpest India Ltd

Under the '**CUB**' series banner, we are covering small-cap companies with robust long-term growth potential.

Our endeavour is to recommend smallcap companies that are not widely covered. Despite low liquidity and small size of business, these companies have strong long-term fundamentals and sustainable structural growth drivers.

In our view, investment themes in equity markets play out over the long-term with potential pay-offs taking time to materialize.

By introducing the CUB series our objective is to identify quality small-cap companies in the early stages of their growth cycle.

The CUB Series

Kilpest India

Kilpest India (KLPI) has seen multiple transformations in the last ~50 years of existence. Based in Bhopal, it started with agrochemicals in 1972 and forayed into the niche molecular diagnostics business in FY10 through its subsidiary 3B Black Bio Biotech India. The molecular diagnostics business clocked 46% CAGR in the last five years (FY18–23) and contributed over 80% of revenue in FY23 from 33% in FY18. The management intends to amalgamate 3B BlackBio Biotech with the parent and rechristen the company as 3B BlackBio Dx. It will now be classified as a diagnostic player instead of an agrochemical company. The molecular diagnostics business is a niche and emerging segment globally given the need for accurate and real-time PCR-based diagnosis, rapid test kits for infectious diseases, and genome sequencing. We expect KLPI to sustain healthy growth in the molecular diagnostics business led by product launches, acquisition of new customers, and geographical expansion. KLPI has a strong network of dealerships, sticky customers, and a presence in 35 countries. We recommend a 'BUY' with a TP of INR1,184.

The molecular diagnostics business offers strong potential

The Indian molecular diagnostics market is expected to touch ~USD1.6bn by 2030 from USD0.95bn in 2022 (7% CAGR). The global market is expected to grow at 5% over this period to reach USD34bn. In India, the addressable market for KLPI stands at INR300–400cr. It commands 10–12.5% market share which offers it a huge growth potential on the strength of its in-house enzyme production and bulk procurement of other components that gives it a competitive edge.

Well-placed to tap the growing molecular diagnostics market

After establishing a strong foothold in real-time PCR-based molecular diagnostic kits via brand 'TRUPCR' (85–90% of molecular diagnostics revenue is from the non-COVID business), KLPI is set to expand the rapid test kits (10–15% of segmental revenue) for infectious diseases and antimicrobial resistance (AMR) under the 'TRURAPID' brand. It is also foraying into next-generation sequencing (NGS) under the 'TRUNGS' brand, which may be the biggest opportunity for the company in FY25.

UK subsidiary set for a fast expansion in Europe and RoW

Exports for 3B BlackBio Biotech have grown 4x over FY21–23 driven by rapid test kits for COVID-19. Even after the drop in demand for COVID-related kits, it is fast recouping growth. To expand in the UK and RoW market, KLPI has set up a subsidiary TRUPCR Europe, which earlier acted as a distributor for 3B BlackBio Biotech's products. European subsidiaries have multiple distribution agreements with UK-based clients to supply its products. It is actively looking to expand its customer base across Europe and RoW markets.

Business reorganisation to bring in more focus

KLPI is de-prioritising the agrochemical business, which has been operating on a wafer-thin operating margin and contributed 19% to FY23 revenue. It may think of selling this business, which is becoming non-core. To focus on the molecular diagnostics business, it is amalgamating 3B BlackBio Biotech with KLPI and expanding the global business through subsidiaries. This will help improve margin.

Cash-rich position offers scope for inorganic initiatives

As of March 31, the company is sitting on a cash of INR151cr, including liquid investments. We expect an FCF of INR69cr over the next three years. The company is actively scouting for inorganic opportunities to expand the molecular diagnostics business, which offers upside risk.

Initiate 'BUY' with a TP of INR1,184

Despite the recent run-up, KLPI is available at a discount of ~51% to the average P/E ratio of two prominent diagnostic players: Dr. Lal PathLabs and Metropolis Healthcare (based on the average P/E ratio for FY25–26E). A healthy Balance Sheet, change in business classification, and healthy growth prospects in the molecular diagnostics business are key triggers for a re-rating in the stock. We forecast ~22% earning CAGR over FY23–26, with an upside risk from any M&A that the company is keen on. We recommend a 'BUY' with a TP of INR1,184, which includes INR1,165/INR22 for the molecular diagnostics/ agrochemicals business (25x/10x average EPS for FY25–26E).

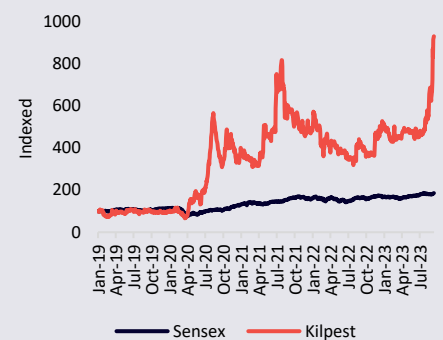
Key financials

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Net Revenues (INR Cr)	81	62	72	88	113
% Growth (YoY)	-64	-23	16	22	29
EBITDA (INR Cr)	37	29	34	43	58
% Growth (YoY)	-76	-21	18	27	34
Net Profit (INR Cr)	28	22	26	32	41
Diluted EPS (INR)	32	26	30	37	48
Diluted P/E (x)	25	32	27	22	17
EV/EBITDA (x)	16	19	16	13	9
ROACE (%)	30	21	21	23	26

CMP (INR)	826
Target (INR)	1,184
Upside (%)	43%
Rating	BUY

Date: September 11, 2023

Bloomberg:	KLPI:IN
52-week range (INR):	315/857
M-cap (INR cr):	620
Promoter holding (%)	38.43
FII's	3.06
DII's and MF's	-
Others	58.51%



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Business structure

We expect KLPI to clock 22% revenue CAGR over FY23–26 driven by:

- i) Around 31% revenue CAGR from the non-COVID molecular diagnostics business, led by product launches and geographical expansion.
- ii) The overall molecular diagnostic business will clock 26% CAGR as the COVID-related business subsides. The contribution of the molecular diagnostic business is likely to increase to 88% in FY26E from 81% in FY23.
- iii) Exports are expected to clock 16% CAGR over FY23–26, though growth will be faster during FY25–26.
- iv) The agrochemical business (19% of FY23 revenue) has been witnessing slower growth (declined by 5% over the past five years) as it is being de-prioritised. The management may decide about divesting or disposing of this business in due course. We have assumed 5% revenue CAGR over FY23–26E (as compared to a fall of 5% over the past five years).

We expect EBITDA margin to expand to ~50% in FY25/FY26 from ~47% in FY23 aided by:

- i) The higher contribution of the molecular diagnostics business (generated ~60% EBITDA margin in FY23 as compared to an operating loss of INR0.9cr in the agrochemical business).
- ii) Focus on differentiated products, where the competitive intensity is relatively low like qPCR-based products and products related to gene sequencing (NSG products).
- iii) The expected increase in exports will boost margin owing to better realisation in overseas markets through its UK subsidiary.

KLPI is well placed to clock a revenue/PAT CAGR of 22% each over FY23–26E, which will result in a free cash flow of INR 69cr. Average RoE will improve to ~17% in FY26E from 14% in FY23. We initiate coverage with a 'BUY' rating and a TP of INR1,184, valuing the stock at 22x its average earnings for FY25E and FY26E. The re-rating of the stock will be triggered by the launch of high-value products and an expansion in exports.

We expect 22% revenue CAGR over FY23–26 due to product launches, an uptick in exports, and a foray into new areas of molecular diagnostics

We expect operating margin to improve on operating leverage, a better margin profile in launches, and a higher share of exports

Our TP of INR1,184 includes INR1,165/INR22 for the molecular diagnostics/agrochemicals business (25x/10x average EPS for FY25–26E)

INR cr	FY23	FY24E	FY25E	FY26E
Revenue	62	72	88	113
EBITDA	29	34	43	58
EBITDA margin (%)	46.7	47.3	49	50.9
PAT	22	26.1	31.9	41.3

INR cr	FY23	FY24E	FY25E	FY26E
RoACE (%)	21	21	23	26
OCF	40.7	25.4	22.9	26.5
Net D/E ratio	-0.3	-0.4	-0.3	-0.3

	Average for FY25E and FY26E	Value
Agrochemicals	10x	19
Molecular diagnostics	25x	1,165
Target price		1,184

At the CMP, the P/E ratio is 17x the average EPS for FY25E/FY26E

+

Average RoCE over FY24–26E: 23%

+

At the TP, the P/E ratio is 24 the average EPS for FY25–26E

Upside: 43%

Story in charts

Exhibit 1: Expect 26% CAGR in the molecular diagnostics business over FY23–26E

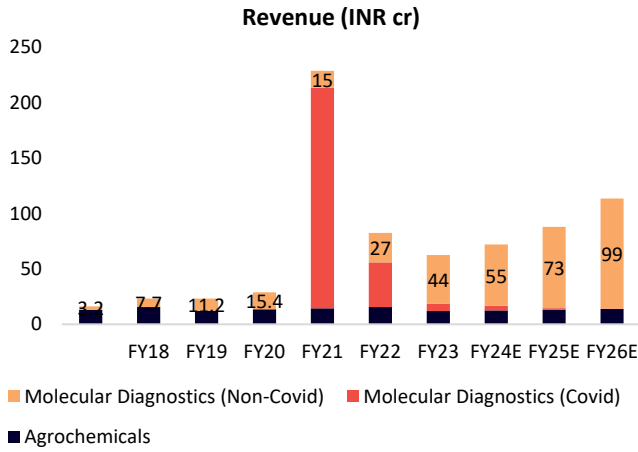


Exhibit 2: Exports to aid growth in the molecular diagnostics business

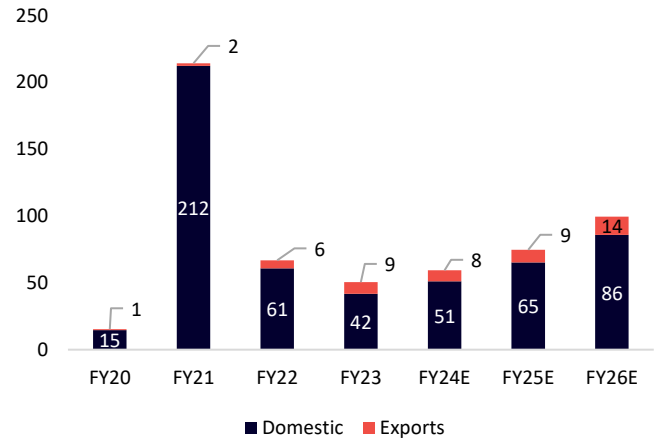


Exhibit 3: Client addition to drive growth in molecular diagnostics

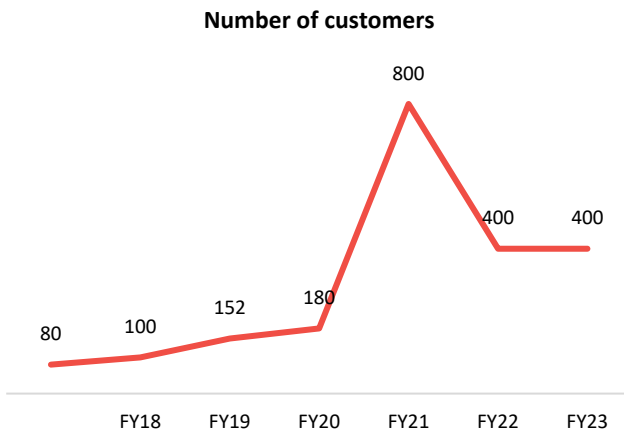


Exhibit 4: Change in product mix to drive EBITDA margin

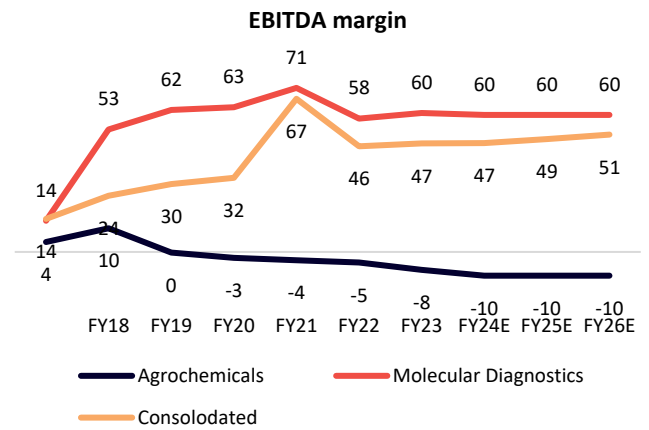


Exhibit 5: Product launches to drive growth

Progression in the molecular diagnostics business

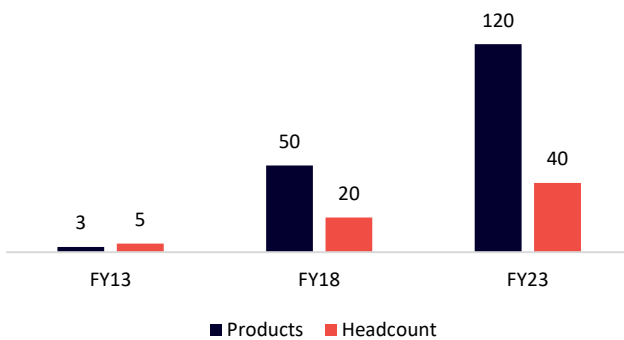
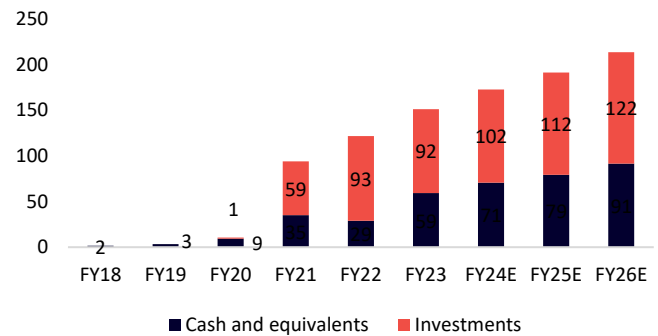


Exhibit 6: Healthy Balance Sheet offers scope for acquisitions

Cash and investments



Source: Nuvama Wealth Research

Exhibit 7: Expect INR69cr in FCF over FY24–26

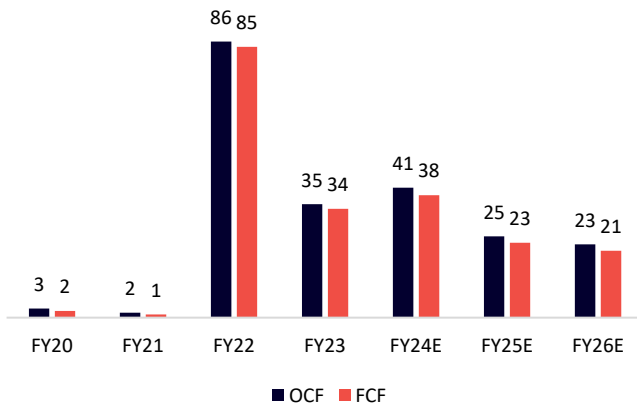
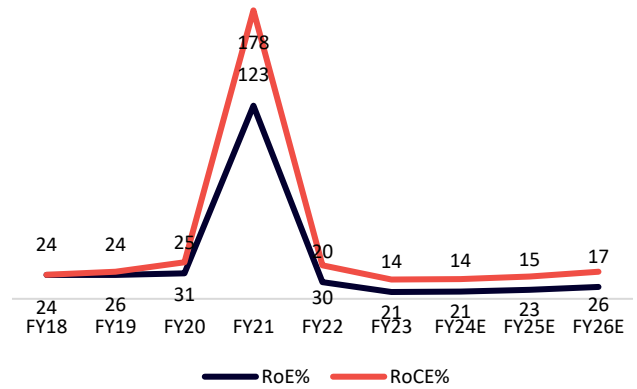


Exhibit 8: Better profit margin to drive return ratios



Source: Nuvama Wealth Research

**The sale of rapid test kits for COVID-19 in FY21 and part of FY22 drove numbers during respective years. As the pandemic subsides, the focus shifts to the non-COVID business, which is expected to clock healthy growth. The one-off opportunity from the rapid-test kits helped enrich the Balance Sheet, which will help expand the business in due course.*

Merger with 3B BlackBio Biotech

- The existing paid-up equity capital of KLPI is INR75,08,100 (face value of INR10 each).
- KLPI holds an 87.45% stake (8,98,549 shares) in 3B BlackBio Biotech, which has a total equity of 10,27,500 shares.
- Pursuant to the scheme of amalgamation, 10,74,570 new fully paid-up equity shares of KLPI will be issued to the remaining shareholders of 3B BlackBio Biotech (holding 1,29,000 shares or 12.56% stake) in the swap ratio of 8.33 shares of KLPI for every share in 3B BlackBio Biotech.
- The 8,98,500 shares held by KLPI in 3B BlackBio Biotech will be cancelled as per the amalgamation scheme.
- The equity capital of KLPI (to be rechristened 3B BlackBio Dx) will expand to 85,82,670 shares (FV: INR10 each; existing shares: 75,08,100 + new shares to be allotted: 10,74,570).
- As a result of this increased equity, each existing shareholder of KLPI will become a direct owner of the amalgamated company in the ratio of 0.8748%.
- The listed entity will be renamed as 3B BlackBio Dx so that all stakeholders of KLPI will directly share in the growth of the diagnostics business.
- *The merger will not materially change the EPS (equity dilution will be set off with savings in minority interest).*

Exhibit 9: Current shareholding of 3B BlackBio Biotech

	No. of shares	%
Kilpest India	8,98,549	87.45
2B BlackBio SL Spain	28,976	2.82
Mr Nikhil Kuber Dube	9,967	0.97
Mr Dharendra Dube	39,970	3.89
Mr Prateek Goel	50,039	4.87
Total	10,27,500	100

Kilpest India	No. of shares
Existing	75,08,100
New shares to be issued	10,73,774
Total	85,81,874
Dilution	14.3%

	FY23	FY24E	FY25E	FY26E
Pre-merger EPS	30.2	34.7	42.5	55.0
Post-merger EPS	30.2	34.5	42.2	54.8
Change		-0.8%	-0.6%	-0.4%

Source: Nuvama Wealth Research

Exhibit 10: How the swap ratio has been calculated

Method of valuation	Kilpest India		3B BlackBio Biotech	
	Value per share (INR)	Weightage	Value per share (INR)	Weightage
Income approach	430.4	50%	5,369.7	50%
Market approach	420.5	50%	1,715.8	50%
Fair value of the share	425.5		3,542.8	
Swap			8.33	

Source: Nuvama Wealth Research

Key investment thesis

I. Molecular diagnostics is a flourishing industry

The Indian molecular diagnostics market is expected to touch ~USD1.6bn by 2030 from USD0.95bn in 2022 (7% CAGR). The global molecular diagnostics market is expected to grow at 5% and touch USD34bn by 2030. This market is dominated by players like Abbott Laboratories and Roche Holding. Local players include Molbio Diagnostics, Mylab, and Tata Medical and Diagnostics.

The industry's prospects may be gauged from the recent investment of USD85mn by Temasek in Molbio Diagnostics; the growing interest of Reliance Industries and Tata Group; and startups like D-NOME, Swagene, and MedGenome in molecular diagnostics.

Demand for molecular diagnostic products accrues from more than 3,000 molecular testing labs in India, which is increasing with the addition of healthcare facilities.

The application of molecular diagnostics is growing, especially in the areas of oncology, infectious diseases, dengue, malaria, influenza, HIV, and hepatitis. The applications are more pertinent in PCR-based diagnostics, which constituted ~90% of the market in 2020. In 2021, TB reagents had the highest market share after COVID-19 in the Indian molecular diagnostics reagent market. The emerging areas of molecular diagnostics include genetics, Hematopathology, CVS diseases, and neurological diseases.

PCR-based reagents are in high demand

A complete polymerase chain reaction (PCR) generally requires five basic reagents including a DNA template, forward and reverse primers, DNA polymerase, deoxynucleotide triphosphates (dNTPs), and a reaction buffer. The reagents segment dominated the Indian molecular diagnostics market with a revenue share of 65.3% in 2022. The industry witnessed exponential demand led by the launch of novel reagents by global leaders like Abbott Laboratories, Illumina, and Roche Diagnostics.

Understanding the various components used in PCR

Each PCR assay requires the presence of template DNA, primers, DNA polymerase, and nucleotides. DNA polymerase is the key enzyme that links individual nucleotides together to form the PCR product. Nucleotides include the four bases — adenine, thymine, cytosine, and guanine (A, T, C, G) — that is found in the DNA

Rapid test technologies are gaining attraction

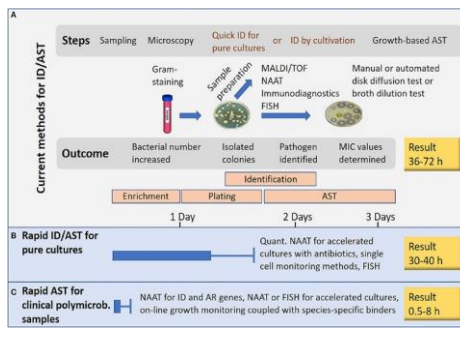
There is an unmet need for rapid and decentralised diagnostics in outpatient clinics to reduce the misuse of antibiotics, detect different pathogens, and differentiate the presence of viruses or bacteria in the body. The demand for a rapid test kit to determine antimicrobial drug resistance (AMR) is growing fast.

As per WHO, AMR remains one of the top 10 global public health threats facing humanity and was associated with the deaths of 4.95mn people in 2019. As per industry estimates, more than 71k people die of drug-resistant infections annually, with this figure expected to touch 10mn by 2050. Besides rapid-test kits to detect various pathogens, kits to detect viruses and bacteria are also in high demand. AMR is a threat to the global economy, with an impact on international trade, healthcare costs, and productivity. If no action is taken, AMR will cost the global economy USD100tn by 2050.

The importance of rapid test kits was particularly highlighted during the COVID-19 pandemic. It became the mainstay during the pandemic, with local players selling nearly a billion test kits in India itself.

The traditional methods of detecting pathogens and anti-microbial resistance have a turnaround time of 40–72 hours vis-à-vis 0.3–8 hours for rapid-test kits. Although the accuracy of the results from a rapid test kit has often been questioned, it is useful in determining the cause and intensity of disease at the preliminary clinical investigation stage.

Turnaround time in a rapid test has fallen to 0.5–8 hours from 36–72 hours under traditional methods



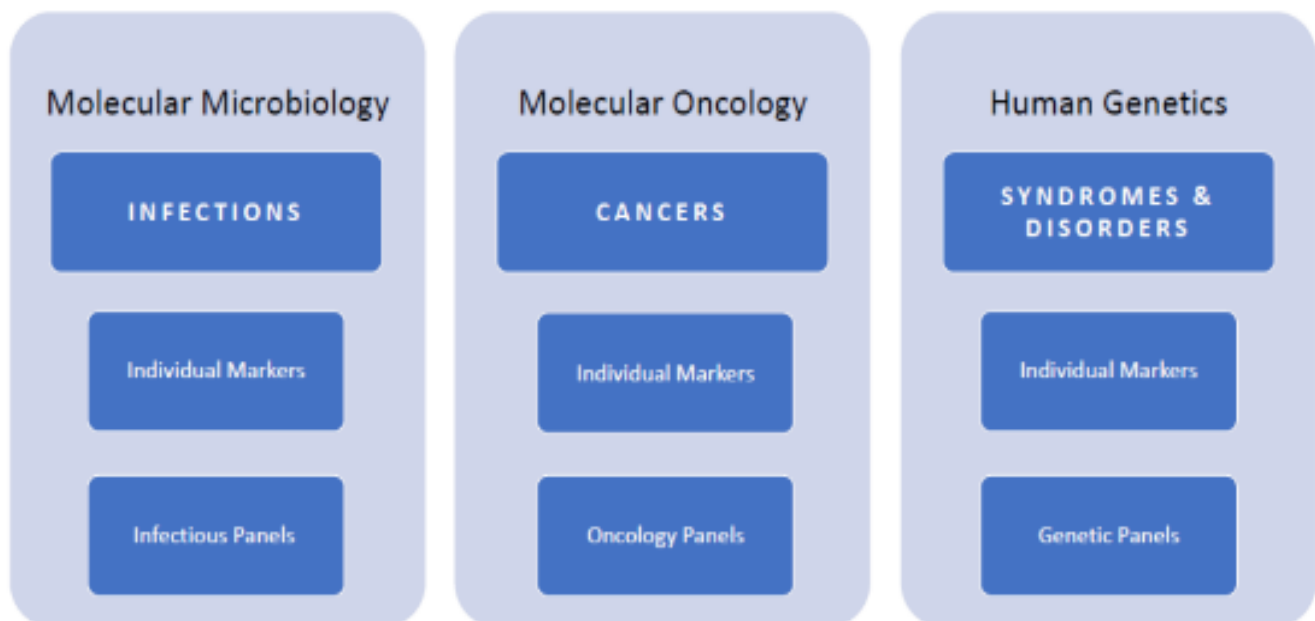
The domestic rapid in-vitro diagnosis (IVD) kit market (excluding COVID-19 tests) is expected to clock double-digit CAGR over FY22–27 (industry estimate). Increasing R&D activities for developing novel therapeutics for the treatment of various infections, Parasitology, enteric, and other diseases across India is expected to drive demand for rapid IVD kits. The technological landscape is changing rapidly with automation, AI, IoT, and advanced data analytics as manufacturers seek to sustain their presence and drive R&D and innovation.

Although the domestic rapid IVD kit market is characterised by intense competition, huge unmet demand is likely to drive the growth in volume.

II. Well-paced to tap a wide spectrum of molecular diagnostics

After establishing a strong foothold in real-time PCR-based molecular diagnostic kits via brand 'TRUPCR' (85– 90% of molecular diagnostics revenue is from the non-COVID business), KLPI is set to expand the rapid test kits (10– 15% of segmental revenue) for infectious diseases and AMR under the 'TRURAPID' brand. It is also foraying into NGS under the 'TRUNGS' brand, which may be the biggest opportunity for the company in FY25.

Product Segments



Source: Company, Nuvama Wealth Research

The competitive landscape for the molecular diagnostics business in India is favourable for KLPI as this market is dominated by a handful of MNCs and the business is fast catching up in oncology, infectious diseases, and genomics.

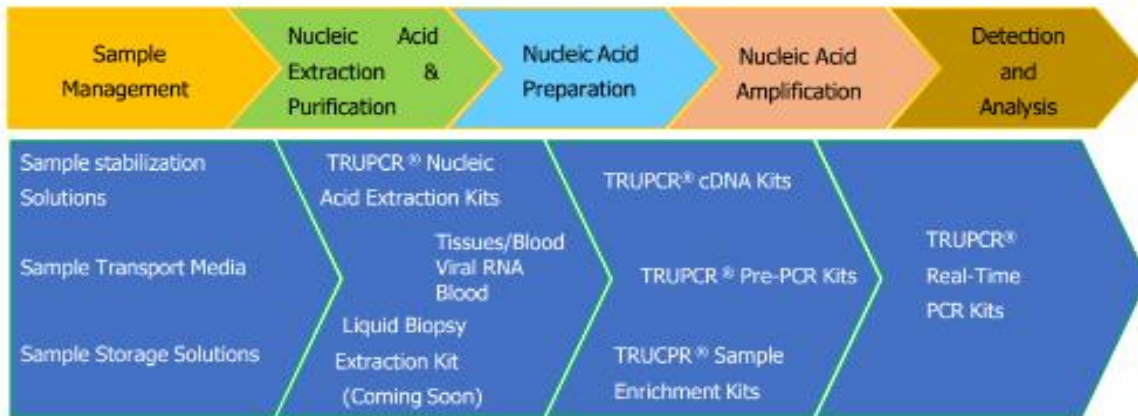
TRUPCR is fast catching up with the competition

KLPI offers end-to-end solutions for PCR-based reagents, assays, and markers encompassing molecular microbiology, molecular oncology, and human genetics. It has considerably expanded its customer base and product basket over the years and is expected to sustain this momentum on the strength of product launches and geographical expansions.

Focus on niche segments: KLPI has focused on niche areas of real-time (RT) PCR-based products and technologies that are witnessing high volume growth vis-à-vis other molecular techniques like mass spectrograph, hybridisation, and microarrays.

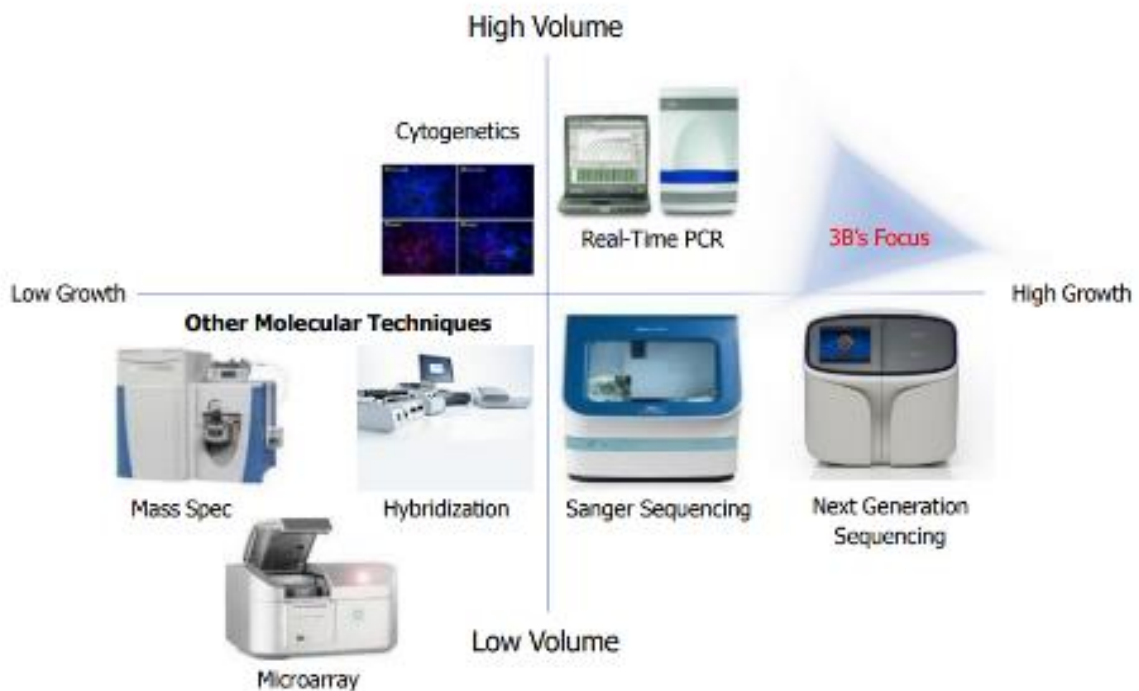
All Inclusive TRUPCR® Products

TRUPCR® range of products offers end-to-end standardized solutions from samples to optimized end-results



Source: Company, Nuvama Wealth Research

Technology Focus



Source: Company, Nuvama Wealth Research

TRURAPID is in a nascent phase but offers potential for a strong growth: KLPI's rapid test kits business is organised under the brand TRURAPID and is expected to witness strong traction on the back of new kits being introduced in the area of anti-microbial drug resistance. The management plans to boost its offerings by launching products in the rapid antigen vertical. Currently, it has developed two rapid test kits: i) carbapenems, which are a class of very effective antibiotic agents commonly used to treat severe bacterial infections; and ii) cephalosporins, which are a class of very effective antibiotics used to treat clinical pathogens, especially gram-negative bacteria.

Rapid Kit Business Vertical

Launching *In-vitro* Rapid Diagnostic Tests for the Detection of Carbapenemes and β -lactamases Resistance in Bacterial Culture / Blood Culture*



TRURAPID®

O.K.N.V.I. RESIST-5 Rapid Test

In vitro rapid diagnostic test for the detection of OXA-48, KPC, NDM, VIM and IMP carbapenemases in bacterial culture

TRURAPID®

RESIST ACINETO Rapid Test

In vitro rapid diagnostic test for the detection of OXA-23, OXA-40, OXA-58 and NDM carbapenemases in *Acinetobacter* spp. bacterial culture

TRURAPID®

RESIST CTX-M Rapid Test

In vitro rapid diagnostic test for the detection of CTX-M-14 and CTX-M-15 β -lactamases in bacterial culture

*Blood Culture processing reagents are available separately.

Source: Company, Nuvama Wealth Research

KLPI has considerably expanded its product basket, headcount, and customer base in the past decade. While FY21–22 saw a considerable jump in customers, mainly for COVID rapid test kits, the core business (non-COVID) witnessed strong traction in the customer base.

Exhibit 11: Progression in molecular diagnostics business

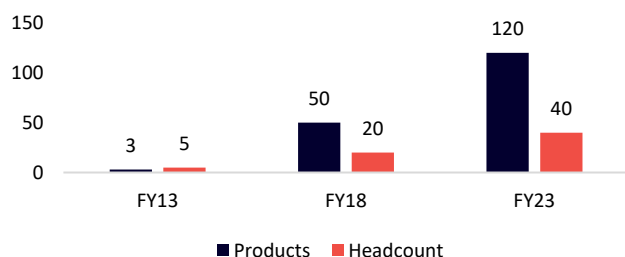
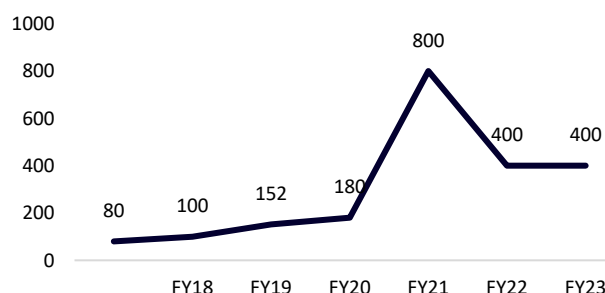


Exhibit 12: Number of customers



Source: Nuvama Wealth Research

NGS vertical to drive growth next

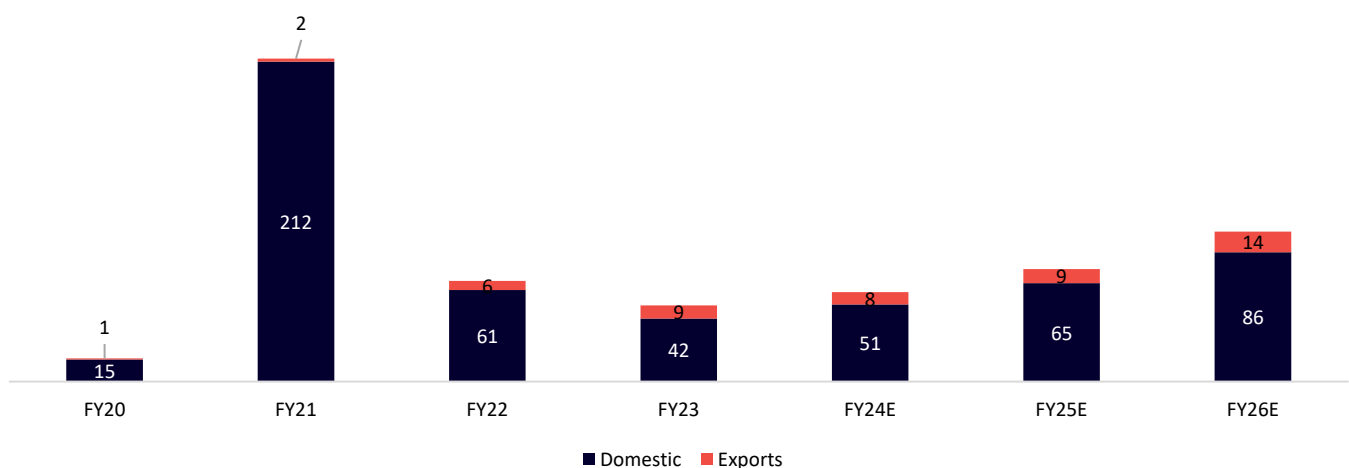
KLPI started work on the development of NGS kits in 2019 and had developed a few parameters, but all activities were suspended due to the COVID-19 pandemic. It is again reviving the revalidation of NGS kits and developing a few more parameters, keeping in mind the global markets.

It recently presented NGS based 'TRUNGS solid tumour panel' for cancer diagnosis and clinical management, which is designed to detect SNVs, Indels, CNVs, and RNA fusions in 35 marker genes and hotspots in six pharmacogenomics genes associated with solid tumours such as lung, gastrointestinal/colorectal, breast, liver, and ovarian tumours. This is relevant to: i) non-small cell lung cancer, ii) breast cancer, iii) colorectal cancer, iv) gastrointestinal stromal tumour, v) melanoma, vi) salivary gland cancer, etc.

Expect molecular diagnostics business to clock ~30% CAGR over FY23–26

The company witnessed 42% revenue CAGR over the past five years (FY20–23) in the non-COVID molecular diagnostics business to touch a revenue base of INR44cr in FY23. We expect a revenue CAGR of 31% over FY23–26 on the back of a 27%/16% CAGR in the domestic business/exports.

Exhibit 13: Molecular diagnostics business



Source: Nuvama Wealth Research

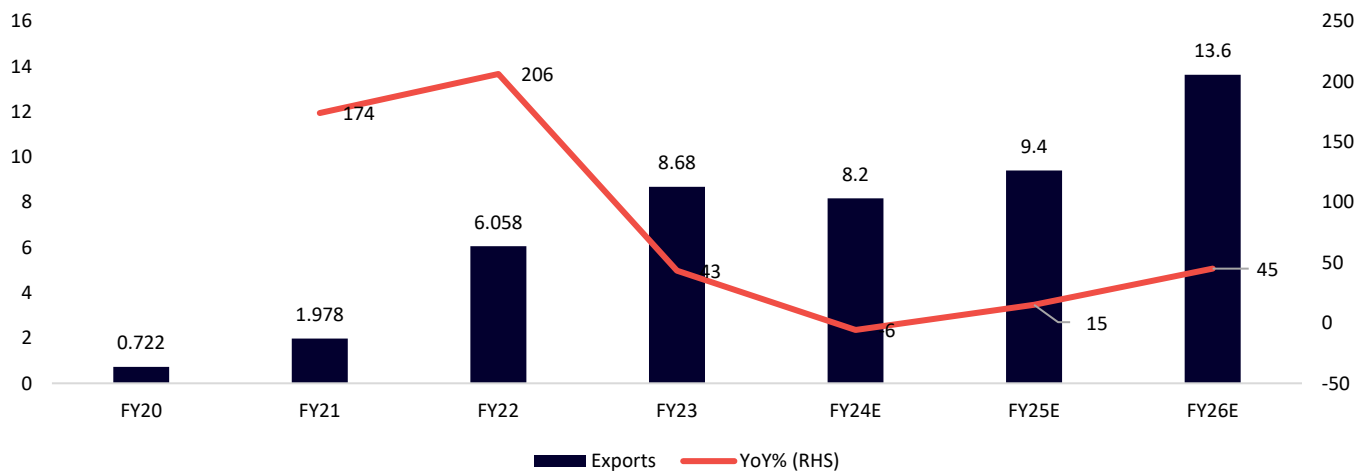
III. Expanding leg space in the export market; UK subsidiary to aid growth

KLPI’s products are well accepted in over 35 countries across the UK, Europe, the Middle East, APAC, LatAm, and the US. It has recently added Southeast Asia and the Middle East via channel partners. The management is in discussion with large international distributors for various projects that will materialise in FY24.

Subsidiary TRUPCR Europe, based in Manchester (the UK), has recently shifted to a new and larger, self-contained, state-of-the-art facility, with dedicated labs for production, quality control, and R&D, along with a separate area for storage and dispatches. The UK subsidiary has started manufacturing of assays to EU customers under the ‘Made in UK’ logo, which will enable expansion in Europe and RoW. Owing to a high base in FY23, which included COVID-related income, growth may get impacted in FY24.

The UK subsidiary reported net sales of INR1.68cr in Q1FY24 and is expected to see a high growth momentum going forward. We expect 16% export CAGR over FY23–26, despite a decline in the COVID-related opportunity. Growth is expected to pick up in FY26 when multiple collaborations with its UK-based subsidiaries starts generating revenue with a bigger product basket.

Exhibit 14: Expect 16% export CAGR over FY23–26



Source: Nuvama Wealth Research

IV. Agrochemicals being de-prioritised

KLPI's legacy agrochemical business, which is operating at a wafer-thin margin, is being de-prioritised to focus on the molecular diagnostics business, which offers good profitability and growth. We expect the agrochemicals business to stay muted in coming years. The management may also think of selling this business if it finds an attractive deal.

Exhibit 15: Revenue from agrochemicals to stay flat

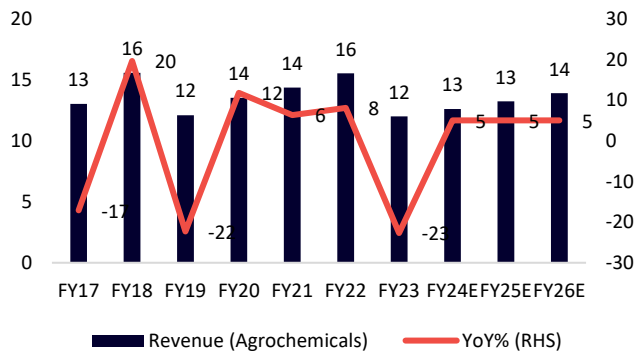
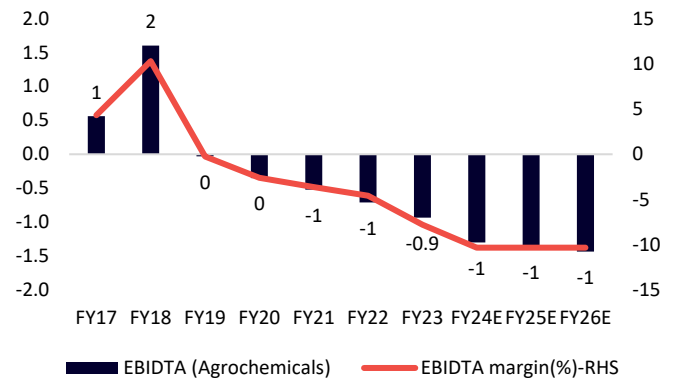


Exhibit 16: EBITDA Trend



Source: Nuvama Wealth Research

Financials analysis

KLPI witnessed a revenue/EBITDA/PAT CAGR of 22%/39%/45% over the past five years. Growth was driven by the molecular diagnostics business, whose contribution rose to 81% in FY23 from 33% in FY18. With the subsiding of the COVID-19 pandemic, consolidated revenue declined in FY22. However, the non-COVID business is seeing strong traction. EBITDA margin rose to 47% in FY23 from 24.4% in FY18 due to a higher proportion of the molecular diagnostics business. The company has a strong Balance Sheet, as reflected in its net cash balance of INR148cr (net of debt and investments).

We expect revenue to grow to INR113cr in FY26 from INR61.8cr in FY23 (CAGR: 22%) and EBITDA to clock 26% CAGR and touch INR58cr in FY26.

COVID boost to the Balance Sheet: Revenue spurted by 685% YoY in FY21 to INR227cr, driven by the sale of rapid test kits worth INR199cr for COVID-19. These rapid test kits generated sales of INR40cr/INR6cr in FY22/FY23. This one-off opportunity considerably strengthened KLPI's Balance Sheet. It generated a free cash flow of INR157cr over FY21–23.

Exhibit 17: Revenue break-up

	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Agrochemicals	15.6	12.1	13.5	14.4	15.5	12	12.6	13.2	13.9
YoY (%)		-22.3	11.7	6.3	8.1	-22.7	5	5	5
Molecular diagnostics	7.65	11.189	15.4	212.3	65.2	49.8	59.3	74.7	99.5
YoY (%)		46.3	37.3	1282.4	-69.3	-23.5	19.1	25.8	33.2
- Domestic			14.6	212.2	60.8	41.8	51.2	65.3	85.8
- Exports			0.7	0.1	4.4	8	8.2	9.4	13.6
Total	23.2	23.3	28.9	226.7	80.7	61.8	71.9	87.9	113.4

Source: Company, Nuvama Wealth Research

Exhibit 18: Revenue grew at 22% CAGR over FY18–23

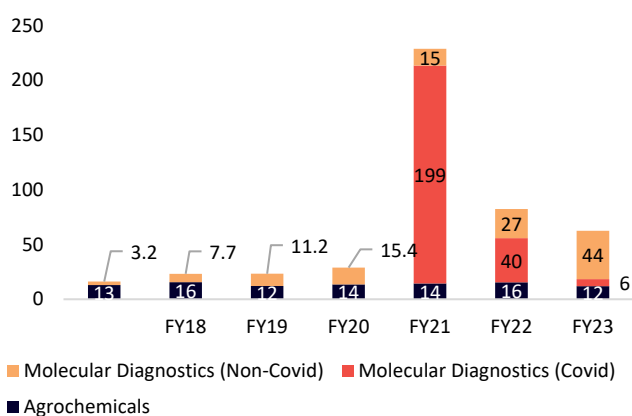
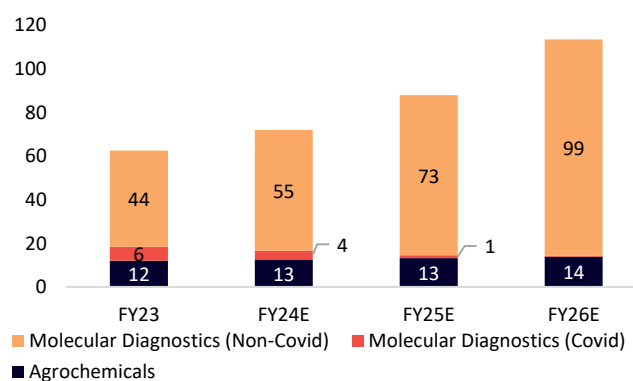


Exhibit 19: Expect KLPI to sustain 22% revenue CAGR over FY23–26



Source: Nuvama Wealth Research

Expect free cash flow of ~INR70cr over FY24–26E: While the COVID-related opportunity is fast disappearing, its non-Covid business is seeing healthy growth. We expect the export business to be a key driver in FY25 and FY26, thanks to new product registrations and the management's efforts to tie-up collaborations in key global markets. We expect PAT to clock 22% CAGR over FY23–26 and reach INR41cr in FY26 from INR23cr in FY23. This should result in a free cash flow of INR69cr over FY24–26E.

Return ratios to stay healthy: RoE/RoCE stood at 14%/21% in FY23. We expect RoE/RoCE to touch 17%/26% in FY26 led by an improvement in operating margin on the back of a better product mix and operating leverage.

Exhibit 20: Strong cash build-up

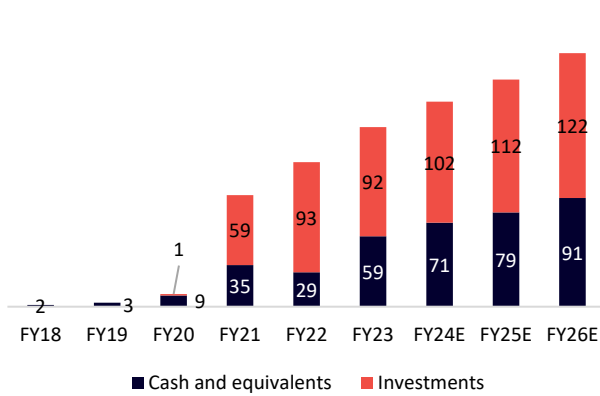
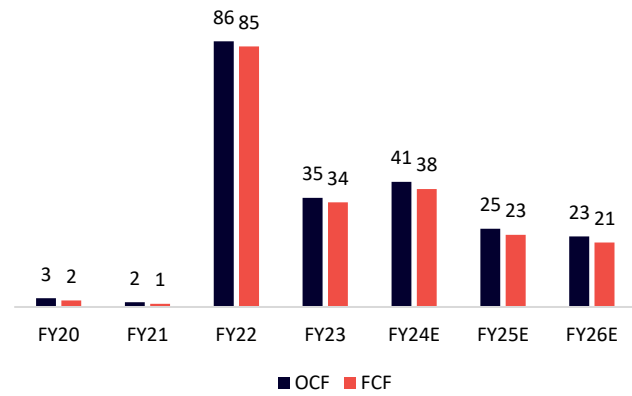


Exhibit 21: Expect free cash flow of INR69cr over FY24–26



Source: Nuvama Wealth Research

Revenue model

Exhibit 22:

	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	CAGR
Revenue													
Standalone	18	16	13	16	12	14	14	16	12	13	13	14	5
YoY (%)	-15	-12	-17	20	-22	12	6	8	-23	5	5	5	
3B BlackBio	1	2	3	8	11	15	212	65	50	59	75	99	26
YoY (%)	7	61	94	142	46	37	1283	-69	-23	19	26	33	
% of consolidated	5	9	20	33	48	53	94	81	81	82	85	88	
Consolidated	19	17	16	23	23	29	227	81	62	72	88	113	22
YoY (%)	-14	-8	-7	44	0	24	685	-64	-23	16	22	29	
EBITDA													
Standalone	1	2	1	2	0	0	-1	-1	-1	-1	-1	-1	15
EBITDA margin (%)	5	11	4	10	0	-3	-4	-5	-8	-10	-10	-10	
3B BlackBio	0	0	2	4	7	10	151	38	30	35	44	59	25
EBITDA margin (%)	1	1	14	53	62	63	71	58	60	60	60	60	
% of consolidated	20	7	76	72	100	104	100	102	103	104	103	102	
Consolidated	1	2	2	6	7	9	151	37	29	34	43	58	26
EBITDA margin (%)	6	11	14	24	30	32	67	46	47	47	49	51	
Other income													
Standalone	0	0	0	0	1	1	4	10	4	4	4	4	0
YoY (%)	14	25	170	59	77	84	166	171	-59	0	0	0	
3B BlackBio	0	0	0	0	0	0	-1	-3	3	3	3	3	1
YoY (%)						-1100	-515	284	-199	1	1	1	
% of consolidated	0	17	0	-54	-3	13	-29	-46	43	44	44	44	
Consolidated	0	0	0	0	1	2	3	7	7	7	7	7	0
Interest													
Standalone	1	1	1	1	0	0	0	0	0	0	0	0	0
3B BlackBio	0	0	0	0	0	0	0	0	0	0	0	0	
Consolidated	1	1	1	1	0	0	0	0	0	0	0	0	0
Depreciation													
Standalone	0	0	0	0	0	0	0	0	0	0	0	0	-1
3B BlackBio	0	0	0	0	0	0	0	0	1	1	1	1	5
Consolidated	0	0	0	0	1	1	1	1	1	1	1	1	3
EBIT													
Standalone	1	2	1	2	0	1	3	9	3	2	2	2	-6
EBIT margin (%)	4	10	4	11	4	6	21	59	24	20	18	17	
3B BlackBio	0	0	2	4	7	10	150	34	33	38	47	62	24
EBIT margin (%)	23	0	51	49	59	62	71	52	66	64	63	62	
% of consolidated	23	0	75	68	94	92	98	79	92	94	95	96	
Consolidated	1	2	2	5	7	10	153	43	36	40	49	64	22
PBT													
Standalone	0	1	0	1	0	1	3	9	3	2	2	2	-7
PBT margin (%)	0	6	-2	7	0	4	19	58	22	18	17	16	
3B BlackBio	0	0	1	4	7	10	150	34	33	38	47	62	24
PBT margin (%)	17	-10	44	48	59	62	71	52	66	64	63	62	
% of consolidated	121	-22	119	77	100	95	98	79	92	94	95	97	
Consolidated	0	1	1	5	7	10	153	43	35	40	49	64	22
PAT													
Standalone	0	1	0	1	0	1	2	9	2	2	2	2	-9
PAT margin (%)	-1	6	-2	7	0	4	17	55	18	14	13	12	
3B BlackBio	0	0	1	3	5	6	98	20	21	24	30	40	25
PAT margin (%)	17	-13	35	33	44	41	46	30	41	41	41	40	
% of consolidated	212	-30	131	71	101	93	98	70	91	24	30	40	
Consolidated	0	1	1	4	5	7	101	28	23	26	32	41	22
EPS													
Standalone	0	1	0	2	0	1	3	11	3	2	2	2	-13
YoY (%)	-112	-1100	-129	-496	-103	-1522	379	255	-75	-29	-3	-3	
3B BlackBio	1	-1	2	4	8	10	149	32	27	32	40	53	6
YoY (%)	-183	-274	-346	73	119	16	1451	-79	-13	19	24	31	
% of consolidated	138	-170	123	70	101	94	98	74	91	94	95	97	
Consolidated	0	1	2	5	8	10	152	43	30	34	42	55	22

Source: Nuvama Wealth Research

Valuation and view

As there are no players in the listed space to compare with KLPI's business model, comparative valuations are limited. The company is classified as an agrochemical player, but will be soon reclassified as a diagnostic player after being rechristened 3B BlackBio Dx. For reference, we have considered two key diagnostic players in India, even though they cater to different product segments and scale, as they serve the healthcare testing industry. The stock is trading at a P/E ratio of 27x/22x/17x FY24E/FY25E/FY26E earnings. It is available at a discount of ~51% to the average P/E ratio of two prominent diagnostic players: Dr. Lal PathLabs and Metropolis Healthcare (based on the average P/E ratio for FY25–26E).

Exhibit 23: Peer valuation

Peers	EPS CAGR (FY23–26E)	Avg RoE% (FY24E–25E)	PER (avg FY25E–26E)
Dr. Lal PathLabs	23	19.3	44.9
Metropolis Healthcare	17	15.7	34.8
Average		17.5	39.8
KLPI	22	15	19.4
Discount to peers			-51%

Source: Nuvama Wealth Research

If we consider valuations of the latest deals in the global molecular diagnostics business, it varies widely between 5x and 20x sales. Recently, Zydus Lifesciences acquired 6.5% stake in a key, unlisted molecular diagnostic player (Mylab Discovery Solutions Pvt) for INR106cr which implies a valuation at 17x FY23 sales.

Exhibit 24: Global M&A deals in the molecular diagnostics space

Date	Acquirer	Target	Country	Revenue of the target company	Valuation (x sales)	Deal value
July 7, 2023	SD Biosensor	Meridian Bioscience	USA	USD333mn*	8	USD1.53bn
March 15, 2023	Werfen	Immucor	USA	USD380mn	5	USD2bn
October 31, 2022	Thermo Fisher	The Binding Site Group	UK	USD220mn	12	USD2.6bn
July 26, 2022	Ginkgo Bioworks	Zymergen	USA	USD15mn	20	USD300mn
January 28, 2022	Maravai LifeSciences	MyChem	USA	NA	NA	USD240mn
March 15, 2021	Roche	GenMark	USA	USD198mn	9	USD1.8bn
March 1, 2021	Hologic	Diagenode	USA	USD30mn	5	USD159mn

*For 60% stake; Source: Industry; Nuvama Wealth Research

Recommend a 'BUY' with a TP of INR1,184

Our SoTP-based valuation implies a P/E ratio of 22x on an average EPS for FY25–26E, which is at a 45% discount to the average P/E ratio of top diagnostic companies in India. Our TP implies 11.5x/9x sales for FY25E/FY26E.

Exhibit 25: SoTP valuation

Business verticals	Target multiple (x)	Average EPS for FY25–26E	Value (INR)
Agrochemicals	10	2	19
Diagnostics	25	47	1,165
Total			1,184

Source: Nuvama Wealth Research

Company at a glance

Based in Bhopal (Madhya Pradesh), KLPI started with agrochemicals in 1972 and forayed into the niche molecular diagnostics business in FY10 through its subsidiary 3B Black Bio Biotech India — one of India's leading companies in the field of PCR-based molecular diagnostic kits. This ISO 13485:2016 certified, GMP-compliant biotech R&D organisation was established in 2011 as an Indo-Spanish JV, engaged in design, development, manufacturing and commercialisation of PCR-based molecular diagnostic kits, PCR enzymes, and PCR reagents.

PCR-based molecular diagnostic kits are commercialised under the TRUPCR® brand to renowned diagnostics laboratories across India. TRUPCR® is a registered trademark of 3B BlackBio Biotech India.

The company is helmed by Mr Dharendra Dube (MD) and Mr Nikhil Kuber Dube (CFO).

Exhibit 26: Key managerial personnel

Name	Designation	Promoter /Non-promoter	Qualifications
Mr Dharendra Dubey	Managing Director	Promoter, MD	B.Sc.
Mr Nikhil Kuber Dubey	Whole-time Director/CFO	Promoter, WTD	B.Sc.
Mr Shabbar Husain	Independent Director	Non-Executive	NA
Mrs Mithla Dubey	Director	Non-Executive	Matriculate
Mr Navneet Kaur	Company Secretary and Compliance Officer	NA	NA
Mr Abdul Moin Khan	Independent Director	Non-Executive	B.Sc and MA in Sociology
Mr Harihar Prasad Thapak	Independent Director	Non-Executive	MA

Source: Nuvama Wealth Research

Exhibit 27: Shareholding pattern

Shareholders	Jun'22	Sep'22	Dec'22	Mar'23	Jun'23
Indian (promoter and group)	38.43	38.43	38.43	38.43	38.43
Non-promoter (institutions)	1.72	1.64	2.11	2.54	3.06
Non-promoter (non-institutions)	59.85	59.93	59.46	59.03	58.51
Total non-promoter	61.57	61.57	61.57	61.57	61.57
Total promoter and non-promoter	100	100	100	100	100
Grand total	100	100	100	100	100

Please note names and designations updated in the tables above based on data available on the company website <https://www.kilpest.com/upload/KMP%20Kilpest.pdf>

Financials

Income statement		(INR crs)				
Year to March	FY22	FY23	FY24E	FY25E	FY26E	
Income from operations	81	62	72	88	113	
Direct costs	32	18	21	25	30	
Power & Fuel	0	0	0	0	0	
Employee costs	4	5	6	7	9	
Other expenses	8	10	11	13	17	
Total operating expenses	44	33	38	45	56	
EBITDA	37	29	34	43	58	
Depreciation and amortisation	1	1	1	1	1	
EBIT	36	28	33	42	57	
Interest expenses	0	0	0	0	0	
Other income	7	7	7	7	7	
Profit before tax	43	35	40	49	64	
Provision for tax	11	9	11	13	17	
Core profit	32	26	30	36	47	
Extraordinary items	0	0	0	0	0	
Profit after tax	32	26	30	36	47	
Minority interest	-4	-3	-3	-4	-6	
Adjusted net profit	28	22	26.1	31.9	41.3	
Equity shares outstanding (mn)	0.8	0.8	0.9	0.9	0.9	
EPS (INR) basic	37	30	30	37	48	
Diluted shares (Cr)	0.9	0.9	0.9	0.9	0.9	
EPS (INR) fully diluted	32	26	30	37	48	
Dividend per share	10.5	2.5	2.5	2.5	2.5	
Dividend payout (%)	32	10	8	7	5	

Common size metrics- as % of net revenues

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Operating expenses	54.4	53.3	52.7	51.0	49.1
Depreciation	0.8	1.4	1.2	1.0	0.8
Interest expenditure	0.1	0.3	0.3	0.2	0.2
EBITDA margins	45.6	46.7	47.3	49.0	50.9
Net profit margins	34.6	36.3	36.2	36.3	36.5

Growth metrics (%)

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Revenues	(64.4)	(23.3)	16.3	22.2	29.0
EBITDA	(75.6)	(21.5)	17.7	26.6	34.1
PBT	(71.9)	(18.3)	14.6	22.6	29.8
Net profit	(72.1)	(19.4)	15.1	22.5	29.8
EPS	(72.2)	(19.6)	16.3	22.3	29.6

Balance sheet						(INR crs)
As on 31st March	FY22	FY23	FY24E	FY25E	FY26E	
Equity share capital	7	7	7	7	7	
Preference Share Capital						
Reserves & surplus	146	164	187	217	256	
Shareholders funds	153	171	195	224	263	
Secured loans						
Unsecured loans						
Borrowings	3	2	2	2	2	
Net Deferred tax	2	3	3	3	3	
Minority interest	19	25	26	26	26	
Sources of funds	177	201	226	255	294	
Gross block						
Depreciation						
Net block	7	8	9	10	11	
Capital work in progress	0	0	0	0	0	
Total fixed assets	7	8	9	10	11	
Unrealised profit						
Investments	93	92	102	112	122	
Inventories	7	8	10	12	16	
Sundry debtors	30	34	35	43	56	
Cash and equivalents	29	59	71	79	91	
Loans and advances	16	14	15	19	24	
Other current assets	11	0	0	0	0	
Total current assets	93	115	132	154	187	
Sundry creditors and others	6	5	7	8	10	
Provisions	10	8	10	12	16	
Total CL & provisions	16	14	16	20	26	
Net current assets	78	101	115	134	161	
Misc expenditure						
Uses of funds	177	201	226	255	294	
Book value per share (INR)	204	228	227	261	306	

Cash flow statement						(INR crs)
Year to March	FY22	FY23	FY24E	FY25E	FY26E	
Net profit	28	23	26	32	41	
Add: Depreciation	1	1	1	1	1	
Add: Misc expenses written off	3	11	1	0	0	
Add: Deferred tax						
Gross cash flow	32	34	28	33	42	
Less: Changes in W. C.	4	6	-2	-10	-16	
Operating cash flow	35	41	25	23	27	
Less: Capex	1	2	2	2	2	
Free cash flow	34	38	23	21	25	

Ratios

Year to March	FY22	FY23	FY24E	FY25E	FY26E
ROAE (%)	20	14	14	15	17
ROACE (%)	30	21	21	23	26
Debtors (days)	136	200	180	180	180
Current ratio	5	8	7	7	7
Inventory (days)	34	47	50	50	50
Payable (days)	72	81	83	83	82
Cash conversion cycle (days)	98	167	147	147	148
Net Debt/EBITDA	-0.7	-2.0	-2.0	-1.8	-1.5
Net debt/Equity	-0.2	-0.3	-0.4	-0.3	-0.3

Valuation parameters

Year to March	FY22	FY23	FY24	FY25E	FY26E
Diluted EPS (INR)	32.5	26.1	30.4	37.2	48.2
Y-o-Y growth (%)	(72.2)	(19.6)	16.3	22.3	29.6
CEPS (INR)	38	31	31	38	49
Diluted P/E (x)	25.4	31.6	27.2	22.2	17.2
Price/BV(x)	4.1	3.6	3.6	3.2	2.7
EV/Sales (x)	7.4	9.1	7.7	6.2	4.7
EV/EBITDA (x)	16.1	19.5	16.2	12.6	9.2
Diluted shares O/S	0.9	0.9	0.9	0.9	0.9
Basic EPS	37.1	29.9	30.4	37.2	48.2
Basic PE (x)	19.2	27.4	27.2	22.2	17.2

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