



**June 2, 2023**

**BSE Ltd.,**  
P J Towers,  
Dalal Street,  
Mumbai - 400 001.  
**Scrip Code: 524735**

**National Stock Exchange of India Ltd.,**  
Exchange Plaza,  
Bandra-Kurla Complex, Bandra,  
Mumbai - 400 051.  
**Symbol: HIKAL**

Dear Sir/Madam,

**Subject: Transcript of Earnings call for quarter and financial year ended March 31, 2023**

In continuation of our letters dated May 26, 2023 and May 29, 2023 and pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the earnings call held on May 29, 2023, for quarter and financial year ended March 31, 2023.

Kindly take the information on record.

Thanking you,

Yours Sincerely,  
for **HIKAL LIMITED**

**Rajasekhar Reddy**  
**Company Secretary & Compliance Officer**

**Encl.: As above**

**Hikal Ltd.**

**Admin. Office:** Great Eastern Chambers, 6<sup>th</sup> Floor, Sector 11, CBD Belapur, Navi Mumbai - 400 614, India. Tel. + 91-22-6277 0299, + 91-22-6866 0300

**Regd. Office:** 717, Maker Chambers - 5, Nariman Point, Mumbai - 400 021, India. Tel. +91-22 6277 0477. Fax: + 91-22 6277 0500

www.hikal.com    info@hikal.com    CIN: L24200MH1988PTC048028



## Hikal Limited

### Q4 FY23 Earnings Conference Call

May 29, 2023

Disclaimer: E&OE. This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 29th May 2023 will prevail.



**MANAGEMENT:** **MR. SAMEER HIREMATH – MANAGING DIRECTOR**  
**MR. ANISH SWADI – SENIOR PRESIDENT, BUSINESS**  
**TRANSFORMATION**  
**MR. VIMAL KULSHRESTHA – HEAD, CROP**  
**PROTECTION BUSINESS**  
**MR. KULDEEP JAIN – CHIEF FINANCIAL OFFICER**  
**MR. MANOJ MEHROTRA – HEAD, PHARMACEUTICAL**  
**BUSINESS**

**Moderator:**

Ladies and gentlemen, good day, and welcome to the Hikal Limited Q4 FY23 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sameer, Managing Director from Hikal Limited. Thank you, and over to you, sir.

**Sameer Hiremath:**

Thank you very much. Good evening, ladies and gentlemen, and a very warm welcome to all of you. We extend our gratitude to all of you for participating in our Q4 and full year FY23 results conference call. We are delighted to provide you with an update on the progress made by our company. We trust that you have had the opportunity to review our earnings release, investor presentation and the financial statements for the quarter and year ended 31, March 2023. These documents can be accessed on both Hikal's website and the stock exchange website. I am Sameer Hiremath, Managing Director, Hikal Limited, and I will be leading the discussion and presenting the financial results.

On this call with me, I have Mr. Anish Swadi, Senior President of Business Transformation, Mr. Kuldeep Jain, our Chief Financial Officer, Mr. Manoj Mehrotra, our Head of Pharmaceutical business, Mr. Vimal Kulshrestha, Head of our Crop Protection business and Strategic Growth Advisors, our Investor Relations Advisors.

During the financial year 2022-2023, despite the challenging economic environment, our company has delivered a step-wise improvement in performance quarter-on-quarter for this financial year. We achieved a revenue of INR 2,023 crores and an EBITDA of INR 257 crores, compared to INR 1,943 crores and INR 341 crores, respectively, for the previous year. This demonstrates our ability to navigate through challenging and difficult market conditions.

Our ability to manage in this challenging environment can be attributed to the implementation of various strategic initiatives aimed at cost management, supply chain optimization, streamlining procurement, productivity improvement, product mix optimization as well as automation. These measures have effectively absorbed part of the escalation in input costs and ensured operational efficiency.

We are pleased to announce that in Q4 FY23, our operating margins expanded sequentially despite limited top line growth. This achievement is a result of the consistent efforts and continued focus of our team at Hikal.

Furthermore, the Board of Directors has recommended a dividend of 30% of the face value, which is INR 0.60 per share. When combined with the interim dividend of 30% already paid, the total dividend per share for FY23 amounts to 60% of the face value or INR 1.20. This underlines our commitment to providing value to our shareholders.

In terms of the numbers for this quarter, we observed a year-on-year increase in revenue of 8.5% primarily driven by the recovery in the Pharma business. The top line for the quarter reached INR 545 crores compared to INR 502 crores last year.

Furthermore, our revenue for the full year exhibited a growth of 4% and amounted to INR 2,023 crores. The EBITDA for the full year stood at INR 257 crores and also the profit after tax for the quarter stood at INR 36 crores, and the profit after tax for the entire year amounted to INR 78 crores.

We have dedicated significant efforts to strengthening our balance sheet and improving the company's returns. Despite the capex, which was done in the last year, our debt equity ratio stands at 0.61x compared to 0.59x as of the previous year.

You must have read about the dispute between Mrs. Sugandha Hiremath and her brother Baba Kalyani. This is a private matter between the two shareholders and is independent of the company's operations. It will not have any impact on the management and its operations and does not have any financial implications for Hikal.

Now I would like to introduce Mr. Manoj Mehrotra, President of our Pharmaceutical Division, who will provide an overview of the division performance. Over to you, Manoj.

**Manoj Mehrotra:**

Thank you, Sameer, and good evening to all participants. In the fourth quarter of FY23, the Pharma business witnessed a growth in revenue of 0.3% compared to Q4 FY22 with a total revenue of INR 309 crores. The EBIT for the division amounted to INR 36 crores, achieving an 11.7% margin. This revenue growth can be attributed to the increased demand for our key products across the pharmaceutical industry as anticipated and communicated in the previous earnings call.

For the entire year, the revenue at the top line level reached INR 1,115 crores, while the EBIT stood at INR 65 crores. The decline in EBIT can be attributed to the challenge of passing on higher cost to customers, which remains a focal point for us. However, efforts in cost reduction through business excellence initiatives have helped partially absorb the impact of rising input prices, thereby stabilizing margins.

Although, the pharmaceutical industry is currently facing intense competition, the rate of price erosion is lower than expected experienced in 2022. This suggests that the worst case of erosion is likely behind us supported by improved raw material and logistics costs.

I'll now focus on the two business segments of the Pharma business.

First, the APIs. In terms of API business, we have witnessed consistent growth over the past few quarters. However, the market is experiencing intense competition and large inventory in the channel pipeline, leading to price pressures.

Despite the challenge, we have successfully maintained a market share in legacy products. Throughout the year, we have expanded our customer base and strengthened our presence in new regions such as Japan, Middle East and Latin America.

Notably, our new product launches in the antidiabetic therapeutic area have gained significant traction among global customers. We have a robust pipeline with 8 to 10 products under development and the target is to launch 3 to 4 products by the end of FY24. Moving forward, our focus will be on maximizing API sales by increasing our customers' share of wallet, exploring new markets and expanding our market share in specific APIs where we possess advantages in terms of backward integration, scale and technology.

On the CDMO vertical, looking ahead, we anticipate the normalization of the CDMO industry in the second half of FY24. As we have mentioned before, CDMO is a long-term business that requires time, commitment, and patience to establish strong customer relationships. We are pleased to report that despite the de-stocking situation, we have increased traction amongst our existing innovator customers, allowing us to expand our share of their business. We have two opportunities in Phase 3 of clinical trials, which are likely to get commercial in the coming years. We maintain a robust pipeline of projects in the CDMO space and actively pursue additional opportunities that have arisen in recent quarters.

Overall, on the Pharma business, I'm delighted to share that our API facility in Panoli, Gujarat underwent a US FDA audit from 8th to 12th of May 2023. The audit concluded with an exceptional outcome as we received no action indicated or NAI as it is called compliance status with 'Zero 483' observations from the US FDA. This achievement reflects our unwavering commitment to maintaining the highest standards of quality, compliance, and regulatory adherence across all our manufacturing sites. These developments further reinforce our position as a leading player in the industry known for our strict adherence to quality and regulatory governance.

Some further actions which we are going to take, we are pleased to highlight that the product pipeline remains robust across all our business categories, indicating promising growth opportunities. Our focus is not only on top line growth but also on enhancing profitability. We are implementing various measures to improve cost efficiency and optimize operational processes. These cost improvement measures are aimed at achieving operational excellence and maximizing the value we deliver to our customers and stakeholders.

Now I would like to introduce Mr. Vimal Kulshrestha, President Crop Protection, who will provide an overview of the Crop Protection division's performance.

**Vimal Kulshrestha:**

Thank you, Manoj, and good evening, all the participants of this earnings call. I'll brief about the crop business. The Crop Protection division achieved a revenue of INR 236 crores for the

quarter, compared to INR 194 crores in Q4 FY22, representing a 22% year-on-year growth. For the full year, division recorded a revenue of INR 908 crores compared to INR 813 crores in FY22, reflecting a 12% year-on-year growth. The EBIT for the quarter amounted to INR 31 crores which was 11.4% and was INR 12 crores in Q4 FY22, indicating a 167% year-on-year growth. On annual basis, dividends EBIT was INR 104 crores, which was 11.4%. All our plants are operating at optimal capacity. Demand of our own product remains subdued in Q4 due to high channel inventory. We expect this trend to continue during H1 FY24.

We are witnessing increased traction in inquiries in the CDMO segment. Our multipurpose plant in Panoli is nearing completion. We are currently in a stabilization phase and the commissioning process is progressing as planned.

Now I would talk about business verticals.

In own product segment, we are observing higher than normal inventory levels in the market and the situation is expected to improve in H2. The medium-term outlook for our own product is positive and end-user consumption continues to grow. As part of our growth strategy, we are in the process of commissioning our new multipurpose plant at Panoli. Additionally, we are actively exploring new product opportunities to further expand our business.

In CDMO business, CDMO business continues to attract inquiries from both existing as well as new customers. This demonstrates the ongoing demand for our contract development and manufacturing services. We are focused on leveraging these opportunities and strengthening our position with global innovator companies. The few actions based on our increased marketing efforts, we are onboarding several new customers. We remain committed to enhance operational efficiencies and thereby reducing costs.

To mitigate supply chain mix, we have begun a strategic vendor development, diversifying our supplier base, implementing backward integration. This ensures reliable ability and stable pricing of essential raw materials. These initiatives fortify our operations, streamlined costs and reinforce our ability to meet customer demand with efficiency and consistency.

Now I would hand over to Mr. Anish Swadi, Senior President of Business Transformation, who will provide overview of our business strategy. Anish, over to you.

**Anish Swadi:**

Thank you, Vimal and Manoj. With our business heads having talked about their respective businesses, I would like to take you through some of our strategic priorities. Our planned transformation journey is well underway with promising developments in our product portfolio and focused geographical expansion. Aligned with our shared purpose of improving lives and serving the larger community, we are committed to sustainability in every aspect of our operations through our ESG strategy. From our focus on decarbonization to exploring new eco-friendly technologies, to waste reduction initiatives and ethical corporate governance, we strive to be a responsible and impactful business.

The positive outcomes of our strategic Project Pinnacle initiatives are already evident across both businesses. This is positioning us for a stronger and more sustainable future. As a company that emphasizes R&D and innovation, we are confident that our focus on scaling through

sustainable operations will lead to long-term success. We remain dedicated to delivering customer-driven products, commercializing in-house innovations and leveraging our expertise to convert contract development projects into long-term manufacturing opportunities across our pharmaceutical and Crop Protection divisions.

As global companies adopt the China Plus One strategy to diversify their supply chains, we see India as a major beneficiary of this shift. At Hikal, we are already seeing and experiencing the advantage of this evolving landscape.

Now to talk a little about Animal Health. Our deep networks and connections with global innovators to become a partner of choice in this space based on our capabilities and handling complex chemistries and providing an end-to-end support in developing processes, complex molecules and providing the option of test batches and rampant scale up as the requirement as there may be, puts us on a very strong and comparable footing.

Our new multipurpose facility for Animal Health is on schedule and should be operational during the first half of the fiscal year FY24, moreover towards the end of Q2. The development of multiple APIs under a long-term agreement with an innovative animal health company is proceeding as planned. And in the next 1.5 years, we will be providing validation batches of the products that we have under development to our customers. We are also in discussions with various customers across the globe to provide manufacturing and R&D solutions to them for their current and future portfolio needs.

Now we would like to open the floor to Q&A.

**Moderator:** Thank you very much, sir. The first question is from the line of Mr. Karan Mehra from Mehta Investment.

**Karan Mehra:** Just two questions from my end. Sir, where do you see the business in the next two to three years, like both from pharma and crop segment?

**Sameer Hiremath:** Yes. Thanks for that question. I think you have a second question as well. Should I take, both of them together?

**Karan Mehra:** Yes. So the next is like, are we getting any new orders both in terms -- in both the businesses, pharma and crop? And any color you can throw over there?

**Sameer Hiremath:** Yes. So I think the long -- the three to four-year horizon, we've put a very detailed strategy in place over the next four to five years, and we're planning out exactly as per that strategy. While this year, as I mentioned in my opening remarks, first half is actually going to be challenging. The medium to long-term outlook is very intact. We expect significant growth to come in all three of our business verticals, which is pharma, crop protection, animal health, and we expect the margins to start improving year-on-year from next year onwards.

The second question was regarding, do you see a lot of opportunities in any products? We are doing a lot of big pivot toward the CDMO segment. If you looked at our Pharma business, we had a lot of legacy products while launching many new molecules on the API side and are also

onboarding several new innovator companies. As Manoj Mehrotra mentioned, we are commercializing two new products in Phase 3, and this will be launched very shortly and this will ramp-up.

Also, we have several other products in the development pipeline. And the same is true on the crop protection and animal health side, we're getting involved with customers on niche and on-patent molecules, which will get launched in the next two to three years. So the growth is very exciting, and we expect the company to really start growing once the new capacity will come on stream by this year, we will start seeing a significant ramp-up in growth and margins.

**Moderator:** Thank you. The next question is from the line of Mr. Dhwanil Desai from Turtle Capital.

**Dhwanil Desai:** So, my first question is, we were expecting FY24 to be back on the growth path. But as mentioned in the press release, I think H1, we are looking at a challenging H1. So, given that context, do we expect to grow at 15% kind of a number in FY24, how do you guys look at that?

**Sameer Hiremath:** Well, yes, you're right. I mean, H1 is expected to be challenging. We still expect growth on an annualized perspective compared to the last year. I would not be in a position to give the exact guidance. I think let us wait and watch how Q1 pan out. But we're quite confident that we will be able to grow on an overall basis, we expect H2 to be significantly better than H1. Demand is still strong in our product its just a moving of offtake from one quarter to the next is because of the channel inventory. And we expect that from September, October onwards, things will start improving in both our businesses. And demand is there, it will come back.

**Dhwanil Desai:** Okay. Second question is, so we are going to commercialize both on the Crop Protection and Animal Health side in the first half or maybe by end of Q2. So a lot of cost is going to come in while the revenue will take time to ramp-up. So, going forward, at least for FY24, do we see our margins kind of getting compressed because of the costs coming in where the revenue is not still scaling up? How to go on that side?

**Sameer Hiremath:** I think you're right. I mean, from end of Q2 onwards, when the plants do start operating, it is a ramp-up. But in this part of the year, we're doing mostly validation batches and ramp-up quantities. So that should more than compensate for the cost of the plant. By the end of the year, we expect the margins to actually not contract to slightly expand compared to last year. They will be better. Because as I've been saying on our previous calls, the new projects that we've taken are on a better margin profile compared to our current historical business. So overall, we expect by the end of this financial year, the margins will improve rather than contract.

**Dhwanil Desai:** Okay. And on Animal Health side, I think last call, you mentioned that we expect revenue to start contributing from FY24 – FY25 onwards, right? So when do you think that the full scale or optimal utilization will reach on the animal health side?

**Anish Swadi:** Yes. So on the Animal Health side, as you mentioned, post end of Q2, when we start the operations in the plant, we'll be validating at least for 1.5 years, the multiple products that we've signed for. Post that, probably in FY25, we'll see the commercialization of this molecule start and then we'll be supplying commercial quantities to our customers.

- Dhwanil Desai:** Okay. So that -- for to reach optimal utilization, it will take 2.5 years, 3 years. Is that a right assumption from the start?
- Anish Swadi:** To reach peak optimization, that's correct. However, we will still generate revenues from the molecules that we'll be validating and supplying to our customers, albeit smaller, but we'll still be generating revenues.
- Dhwanil Desai:** Okay. And last question on the agri side. So I think the new multipurpose plant that is are going to be commercialized this year. Is it largely going to be for our own product or this is for the CDMO opportunities, or is it fungible across both?
- Vimal Kulshrestha:** This is Vimal. So this is going to be a multipurpose plant, and this plant would be used for our own products as well as for CDMO products.
- Dhwanil Desai:** Okay. Got it. And any capex, new capex that we are planning to undertake?
- Sameer Hiremath:** As of now, nothing new. We're just completing these two major projects that are getting commissioned in the next few months. And we just have some maintenance capex and some small other capex for debottlenecking. Apart from that, there's no other major capex plan for this year.
- Moderator:** Thank you, sir. We take the next question from the line of Dipti Kothari from Kothari Securities. Please go ahead.
- Dipti Kothari:** Sir, my first question is that how will the US FDA at Panoli benefit Hikal?
- Sameer Hiremath:** Yes, I think there's a lot of benefit. We now have a second US FDA approved site for APIs. This brings in a lot of value-add for our customers who are all looking at de-risking their supply base. So for all our key molecules, we offer the customers the opportunity to validate their products between two sites, and that is viewed very positively by our customers, and we've already started this exercise. And many of our APIs, which we have filed in Jigani, we're also filing them in Panoli. We have ability to move products around between the two sites. And it also helps in our CDMO strategy where we could do APIs on two sides if demand goes up. And we have contingency planning for security supplies. So this is extremely positively by all our customers.
- Dipti Kothari:** Okay. And sir, how is the pharma CDMO versus own products?
- Sameer Hiremath:** Manoj, do you want to take that?
- Manoj Mehrotra:** Yes. Pharma, CDMO and own products remain broadly in the range of 50-50, it varies quarter-to-quarter, but that's the overall feeling what we are having.
- Moderator:** Thank you. The next question is from the line of Mr. Amaan Vora from Premier Capital.
- Amaan Vora:** I just wanted a little more color on the press release and the guidance you gave. So there are two basic challenges that we are talking about. One is the channel inventory, which most of your competitors are also talking about. But the second part where you're talking about increasing competition. Could you please give me some more color on what is -- where is the competition

coming from and which kind of molecules you are facing this kind of competition, the increased competition?

**Sameer Hiremath:** Yes, I think that it's more of the pharma side, it's for the generic pharma side, Manoj probably you can take that.

**Manoj Mehrotra:** Yes. When we say increased competition, what it means that, okay, we are saying we are developing 8 to 10 products and three to four new launch every year. But what we have seen in the recent past that there are many other companies who are doing similar products. And any DMF, which we file, there will be a replication of at least 10 to 15 DMFs of the same product. So the only way to stay ahead of the competition, it really be a little early for launch, number one.

And number two, always be ahead in the cost curve, which we are trying to do. But having said that, there is always a chance that somebody else does better than you. And what is also happening is that all customers have now multiple sources of APIs, and they tend to kind of negotiate one with the other. And if you really don't have any competitive advantage, you tend to fall in the trap of price reduction. And that's what we are seeing increasingly in the generic API market.

**Amaan Vora:** Got it. So is there a case that like post the China reopening, there has been increased competition from players in China and they've probably been selling -- disrupting the market with selling at lower prices?

**Manoj Mehrotra:** So in the API business, it is primarily companies based out of India, which compete with us, especially, on the product portfolio, what we have. China is also has manufacturers, but it is more from companies based out of India who have filed US DMFs. They also compete with us.

**Amaan Vora:** Got it. And my second question is on our margins a bit. So like our guidance earlier, Sameer, was around that -- post the turmoil we faced in first and second quarters that we'll have a gradual recovery. And then we will grow from our base of FY22 because the mix that we are doing currently, like what we are expanding into has better margins than our historic margins. But your commentary now looks a little somber. I just want to get some color, like I get the top line part, top line challenges. But what is our outlook on margins going ahead?

**Sameer Hiremath:** If you look at our last financial year, we've shown a step-wise improvement in margins quarter-on-quarter. And March '23 quarters are close to 17% margin, which is very close to our historical level. So I think just if we put aside the first one or two quarters challenges for the year, we expect H2 margins to come back to more or less the old historical levels. So again, even this year, H2 will be far better than H1, and we will see -- start seeing margin expansion.

If you look at our quarter four numbers for this year, we expect the margins to be better than our current quarter four numbers for this year. We are confident that margins will become improve because raw material prices have also softened. And as we get volume increases, and we are quickly launching some new molecules this year at a higher margin profile. At the end of the year, when we look at the annual results, we expect the margins to improve compared to this year. So I think it's -- we are being cautiously optimistic if I had to put it, but we are monitoring

the situation very closely. And once demand does come back, we'll be in a very good position to start improving our margins.

**Amaan Vora:** Got it. And my third question is around like we've been talking about most of our CDMO contracts have a pass-through clause and it roughly takes about two quarters lag or two to three quarters lag to pass on the prices. And we've been facing those pressures for the last three or four quarters. So I want to get a sense, like why are we having issues with like Mr. Mehrotra mentioned in his opening remarks that there is some challenge in passing on those prices. So like it's been now two, three quarters. So -- just want to get some sense on what the issue is around passing to our clients.

**Sameer Hiremath:** So I think he was talking about the generic portfolio, where there's a challenge to pass on the increase because of competition. On the CDMO side, there's a very clear pass-through clause in all the contracts. And that's where the lag effect takes place for one or two quarters, two quarters or three quarters sometimes. But it does eventually get passed on, yes.

**Amaan Vora:** Got it. And can you just give me a sense of the total capex that we've done over the last three years?

**Sameer Hiremath:** Yes. Kuldeep, our CFO, will take that, yes.

**Kuldeep Jain:** Yes. Over the last three years, we have done capex of INR700 crores.

**Amaan Vora:** Got it. So now this INR700 crores, if you expect the normalized asset turn of 1.5x, this is about INR1,050 crores of incremental revenue at full utilization that our company should see, which should be sometime in the next 12 to 18 months. Am I -- is my understanding correct?

**Kuldeep Jain:** No, it will take a little more because see this Animal Health will be completing in this year and then crop protection multi-project plant also we will be completing this year. And this pharma typically takes 18 to 24 months.

**Amaan Vora:** Got it. And sir, Animal Health would be accruing revenues to us from FY25, right, not nothing in FY24?

**Kuldeep Jain:** Yes, there will be some validation quantity will be sold, but the big revenue will come from FY25.

**Amaan Vora:** Got it, sir. And my last question is, sir, what would be our capex for FY24?

**Kuldeep Jain:** We're estimating INR200 crores.

**Amaan Vora:** INR200 crores. Got it, sir. We remain committed long-term investors, and we expect Hikal to perform in line with its history and do better in the coming years. Thank you.

**Moderator:** Thank you. We take the next question from the line of Mr. Rohit Nagraj from Centrum Broking.

**Rohit Nagraj:** Congrats on a sequential good set of numbers. My first question is on the gross margin front, in Q4, we have done extremely well. So given that probably there would be some benefits which

would have been coming from lower RM prices. Incrementally, depending -- I mean, considering the current situation, slowdown in first half, do you still expect that the gross margins will be maintained over the next few quarters? Thank you.

**Sameer Hiremath:** I think from the gross margin perspective, I think -- as I mentioned earlier, the H2 will be better than H1. And if you look at the annual year, we'll be better than this full year's annual. From an EBITDA perspective, there will be some impact in the first half, but I think that the second half of the year will more than make it up and then we will have a recovery so that the full year EBITDA will be better than the EBITDA for last financial year.

**Rohit Nagraj:** Right. And any specific reason the staff costs have come off quite a bit on a sequential basis?

**Sameer Hiremath:** Yes. See, for these plants, we had to onboard several new employees well in advance. There's an induction period and there is a training period that the employees have to undergo, which is a few months to a couple of quarters. So that they have to be onboarded before the plant is commissioned or the trials they're involved in. So that is why this staff cost has also gone up a bit. But this will normalize once the plants start operating by end of this year. I will come back to a steady state by next year.

**Rohit Nagraj:** Right. Got it. And my second question is in terms of the channel inventories for both the Pharma and Agro segment. I'm particularly talking about our channel inventories. Are the channel inventories from our side higher in the system, and they may exert pressure given that the raw material prices are still falling and we might have higher cost product inventories?

**Sameer Hiremath:** So we do maintain some inventory of raw materials, but we have been done a lot of work on our inventory and working capital management because of which we've optimized our working capital considerably in the last year. So we have a few months of inventory. And I think by towards end of quarter 1, we start seeing the benefits of the reduced raw material pricing. We don't have a very high amount of inventory, but it will be starting benefiting us by end of quarter one.

**Rohit Nagraj:** And particularly on the product side?

**Sameer Hiremath:** On the finished goods side, we have very little inventory. We don't maintain. We are very strict on inventory management. We maintain low levels of inventory. And so we are -- I think it takes a few months, and we'll be able to manage.

**Moderator:** We take the next question from the line of Nehal Jain from SK Securities. Please go ahead.

**Nehal Jain:** Sir, can you give us some color on your R&D spends and number of DMF filings for the year?

**Sameer Hiremath:** Yes, R&D spend is about 4% of our revenue, is between 3.5% to 4%. That's what we try and maintain every year. And in the last year, we filed three DMFs and the plan is to file three to four DMFs, every single year.

**Moderator:** Thank you. We take the next question from the line of Mr. Ashit Kothi, Individual Investor.

**Ashit Kothi:** Sir, I would want to understand from you as to the pharma as well as animal health products and other advanced pharmaceutical API products, which we are planning to get into with new plant. Are you -- are we confident of starting it by -- or stabilizing even by first quarter of '25?

**Anish Swadi:** So I can take the Animal Health segment. So the validation of all the products are currently ongoing or will start at the end of Q2 once we finish or commercialize the plant. We validate for about 18 to 20 months post that and then we'll start the commercial production in terms of supply and commercial quantities to our customer. I can't go into the details of the products because that's confidential, and it is solely for the customer, but they are animal health products, and we will utilize this range of products as well as the plant that we have built to target additional customers because it's a very unique proposition to have a cGMP US FDA approved animal health plant, supplying on a global scale. So that's on the animal health side. I'll ask Manoj to take -- answer your question on the pharmaceutical also.

**Manoj Mehrotra:** So on the pharma side, we did have some capex, which we have just capitalized in Bangalore and a year before that we did in Panoli. So that revenue has started coming in. And the first year was done more on validation point. If that get customer approvals, we are going ahead with commercial sales also in FY23, FY24, we'll see the revenues coming out of this capex in pharma.

**Ashit Kothi:** With regards to the Animal Health division, what is our management bandwidth on that as well as on the sales?

**Sameer Hiremath:** I'm sorry, can you repeat

**Ashit Kothi:** Yes, the management bandwidth on Animal Health division, as well as the sales people or marketing people on Animal Health and who are our major competitors on Animal Health, is it Hester Bio and others? Whom all we should consider as your major competitor in this particular division?

**Sameer Hiremath:** For the Animal Health, we have a separate organization right from sales and marketing to operations, to R&D and procurement. There is a separate team that is looking after and focus on the animals, so we are focused in the organization. Anish Swadi heads the Animal Health business. From the competition landscape, we are in the CDMO space in the animal health. We don't have our own brands. So I think, I don't know if anybody is like-to-like competitor in India. There are a few players in Europe, the large CDMO players in Europe are making animal products. But there are a few players in China.

**Manoj Mehrotra:** Just to add, what we are unique in animal health is that we are one of the few who have fully compliant cGMP facility for animal health. So that will really give us a cutting edge over other competitors.

**Ashit Kothi:** So if you have to talk in numbers, and that is head count as well as sales, can you throw some light on that?

**Anish Swadi:** As we indicated, in terms of headcount, so animal health currently lies within the pharmaceutical division. So Manoj, oversees the operations of the animal health. I Anish look after the overall business, per se. In order to save costs and streamline operations, we ensure that we quickly,

we're utilizing the existing proceeds we have currently, and we have additional people that are just focused on selling Animal Health so that there is a direct focus there.

But in the areas in which we operate in existing markets, we have people, so there's no point in adding more people to the same job. In terms of sales, we've indicated that, look, currently, we have about INR100 crores run rate existing of animal health business, which is currently within the pharma vertical. And eventually, the business, we have an aspiration to grow to over INR500 crores-plus in the next five years.

**Ashit Kothi:** So sequential yearly wise if we talk about, it would be what 15% growth, or 20% growth?

**Anish Swadi:** It will be closer to 20%. But look, it's not going to be sequential because we're penetrating now and then we hit commercial, right? So you'll have another period of, as I mentioned earlier, about 14 months to 18 months where you validate the products. And then from validation, you'll go -- you'll start supplying commercial. So it will be about 2.5 years before you hit peak in terms of supplying commercial quantities.

**Ashit Kothi:** So out of that 2.5 years, how much of time we have already invested in this? And what is left now?

**Anish Swadi:** 4.5 years, we'll start from the time we commercialize the plant because you can't generate revenue until you have the plant commercialized, right?

**Ashit Kothi:** So actual profit would start contributing from animal health from FY26?

**Anish Swadi:** That's correct. So we'll actually have revenues. So just to explain to you to be very clear, we'll commercialize the plant in the end of Q2, right, where the plant will come onstream. We'll supply validation batches of all the products that we have over the next 14 months to 18 months, which is basically till the end of next financial year. And then we'll start full commercial production. So we will generate revenue and profits in the next 14 months to 18 months, and then the commercial quantities will start, whereby we will generate higher revenues and higher profits.

**Ashit Kothi:** So majorly if we understand it's second half of '26?

**Anish Swadi:** In terms of commercial, look, again, just to clarify, this year at the end, that is the current financial year that we're going through right now. At the end of Q2, we'll start revenues and will generate profits. In the next 18 months, after that, that is at the end of next financial year, we will start commercial supplies where we'll generate more revenues and profitability, higher levels of revenues and higher level of profitability, right? So if I were to say exactly, it will be one year and nine months approximately from where we are today.

**Moderator:** We take the next question from the line of Mr. Pankaj Jain from Mahavir Investments.

**Pankaj Jain:** Sir, I would like to know what is the volume growth for the Pharma business and crop protection business for Q4 and FY23?

- Sameer Hiremath:** So, for FY23, for the crop business, we had a volume growth of 4%, while for the Pharma business, there was a de-growth of 11%. So we were able to improve our product mix and we were selling more high-margin products in the pharma business.
- Pankaj Jain:** What would be the similar number for Q4?
- Sameer Hiremath:** For Q4, our pharma business grew by 10% volume, while our crop business had a de-growth of about 13% for Q4.
- Pankaj Jain:** Sir, my next question will be how is the China Plus One strategy playing out? So do you see incremental revenues, which may come in from that China Plus One strategy? Are we seeing increased inquiries from that front?
- Sameer Hiremath:** Definitely, I mean we are seeing inquiries in all three of our businesses. Of course, customers are all coming to us as option over China, and this has continued. I think the -- it is definitely happening. It just may take a little bit of time because moving a supply chain is not as easy as it sounds. But the process has already started, and the inquiries have increased tremendously in the last one year and many projects have been signed by us, many of them are under development, and some will be launched in this financial year and next financial year. So definitely, there's a lot of traction, and the China plus one strategy is panning out. Pharma is slightly more time than crop because of the regulatory environment, but it is happening in both segments.
- Moderator:** We'll take the next question from the line of Mr. Dhwanil Desai, Turtle Capital.
- Dhwanil Desai:** Sir, one clarification. I think for FY24, you mentioned capex of INR 200 crores, right? But you also mentioned that this year mostly it will be maintenance capex. So is it like for plant completion, there will be some capex and maintenance capex will be much smaller numbers. Can you bifurcate that?
- Sameer Hiremath:** Yes, you are absolutely right. I think -- the large part of the capex would be the completion of the two major projects, the animal health plant and the crop multipurpose plant, which will get commissioned by next quarter. So some of that did a carry forward of the last year's capex and the maintenance capex and the other debottlenecking capex is just a very small part of the total capex.
- Dhwanil Desai:** Okay. And sir, also, a couple of years ago, we were at 20% margin and our aspiration was to grow the margins by 100, 150 bps every year. So FY25 will be kind of re-established to the earlier base and then FY24, sorry. We'll go back to the earlier base and then start growing margins by 100 bps, 150 bps, is that the direction that you're looking at?
- Sameer Hiremath:** So, I think from H2 FY24 onwards, we'll start moving towards the FY22 margins exit run rate. And after that, from FY25 onwards, we expect this sequential growth to come back. I think there's a little bit of pause for 1.5 years because of market conditions and external environment, but the medium to long-term perspective, we are still at confident goal. From FY25 onwards, we exit FY24 closer to steady growth in FY22, and then we'll have a sequential growth that we had aspired to, and we start achieving them, once the new capacities start kicking in by end of this year.

**Dhwanil Desai:**

Okay. And sir, any sense on what is the percentage of revenue contribution from our large legacy pharma molecule, if you can give us some sense? It used to be a very large number. Is it still a very large number?

**Sameer Hiremath:**

No. So the percentage of reliance on our portfolio is coming down year-on-year. If you look at our total split between generics and CDMO on the pharma side, it's close to 50-50, out of that 50% of generics, a large part of the portion going forward, maybe the new launches that we've done last year and this year. So our legacy portfolio will come down considerably. And it was just the -- we are de-risking our legacy portfolio to a large extent. That being said, our legacy portfolio demand still continues to grow.

There is limited competition of scale, there may be a lot of players that Manoj has mentioned for every product. But eventually, the legacy portfolio, only two, three players remain at scale, and they have -- they shared the market between them, and that's what we have seen in our three, four legacy products.

There are a few of us remaining, which will continue to remain, and we have our set of customers. And each of these customers are growing because the end market on all three, four of our legacy molecule is growing year-on-year. So our business will grow on this product as we ensure we retain market share. And the growth of the legacy portfolio will be there, but it will be a smaller part of our total portfolio year-on-year. And our dependence on that is coming down every single year.

**Dhwanil Desai:**

Okay. And one more question, sorry, if you allow me. So, yes, sir, we have been talking about China Plus One tailwind. But in the last few quarters, not only us, but industry as a whole, both on pharma API and on the agri side, the China has come back strongly. And people are kind of giving business, considering price or supply chain risk. So do you think that whatever that customers are talking about in terms of supply chain de-risking is actually translating into action, or when economics finally will prevail over all the risk how is it that you are experiencing that from the customer side?

**Sameer Hiremath:**

It's a very good question. So actually, yes, there is some short-term pricing challenges from Chinese coming into and giving very low prices. But that's more on the commodity products and the raw materials. If you look at the niche molecules and the CDMO segment, that is not the case. I think that's why Hikal is focusing, on the niche products and on more complex products, and our own products are also complex and also on the CDMO space, where definitely there is a move towards a China Plus One, and it is irreversible.

I think the decisions have already been made. And customers are not looking at just as a short-term impact. They are looking at it more from a long-term perspective. And the decisions that have been taken at the senior most level in these companies to move the supply chain out of China. And all is not going to move to India, but even if a fraction of what the China moves to India, is going to keep all the top Indian companies busy for several years to come. And that's what we're seeing.

**Moderator:**

We take the next question from the line of Mr. Rohit Nagraj from Centrum Broking.

- Rohit Nagraj:** Just a few clarifications on the Animal Health. So Anish, on this, how much would be the initial capex that we are doing when the plant will get commissioned? And structurally, the EBITDA margins would be upwards of, say, 20% plus/minus given that it's a niche business. And like we are the only company, I mean, we are among the very few companies with the cGMP facility for animal health? I just wanted color on this. Thank you.
- Anish Swadi:** Yes. So, look, we don't -- we're not disclosing numbers on individual plants that we're building. But this is a significant size multipurpose asset that we have built on our US FDA property in Panoli.
- In terms of your second question, in terms of EBITDA margins, yes, at peak revenues, the margins will be in excess of 20% when we commercialize this. And that, as I mentioned earlier on the call is going to be 14 months to 16 months post Q2 commercialization of the facility.
- Rohit Nagraj:** Right. And will this facility be dedicated for the clients whom we have this contract, or is it fungible and we can use it for any other clients who can be onboarded?
- Anish Swadi:** Yes. So the facility is fungible. It's not dedicated to the client or any particular client. It is fungible and it is used to -- it will be used for multiple global clients.
- Rohit Nagraj:** And these are predominantly, say, a unique proprietary set of molecules or patented molecules or -- I mean, these are currently being made by the innovator or the MNCs and we will be given as a contract manufacturer over a period of time?
- Anish Swadi:** So we are working with the customer to develop the products from scratch. These are a combination of products that the customer uses both proprietary and proprietary generics is what we call it. So we are developing the products from scratch, meeting the latest regulatory guidelines and some of them are off patent, some of them will be on patent. So it's a combination of -- it's a product portfolio. It's not a single product.
- Moderator:** Ladies and gentlemen, due to time constraint, that was the last question for the day. I would now like to hand the conference over to Mr. Sameer for closing comments.
- Sameer Hiremath:** Thank you, everyone, for joining our quarterly earnings call and for your continued interest in our company. We appreciate your support as we navigate through the challenges of the global business environment. At present, our key focus areas are operational excellence, capital efficiency and onboarding new customers and launching our products and completing our new projects which will enable us to reduce cost and improve our margins. By prioritizing these aspects, we aim to maintain our competitiveness in global markets and service our expanding customer base.
- Looking ahead, we are well positioned for sustainable growth in the medium to long term. We do expect some short-term challenges given the current macro-economic environment of high channel inventory with our customers. We expect these challenges to ease towards the end of Q2 FY24, while saying that, we do believe that the medium- to long-term growth and profitability story is intact for Hikal. It is important to emphasize that new customer interest in



Hikal and this product portfolio remains high for both our businesses as well as our emerging segment of the Animal Health business.

Our fully operational facilities and the addition of the new plant, which will come on stream in the next few quarters, along with the launch of new innovative products and other promising developments contribute to our confidence in achieving the results we have targeted over the past several quarters and what we have spoken about in the last few analyst calls.

As we conclude this call, we want to assure you that we are here to address any further questions or concerns, please feel free to reach out to us or to our Investor Relations partners, Strategic Growth Advisors. Stay safe and take care, and thank you once again for your participation and support. Good evening. Thank you.

**Moderator:**

Thank you. On behalf of Hikal Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.