

February 8, 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 period ended December 31, 2022

In continuation of our letters dated January 30, 2023 and February 02, 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 February 02, 2023, for quarter and period ended December 31, 2022.

Kindly take the information on record.

Thanking you,

Yours Sincerely, for HIKAL LIMITED

Rajasekhar Reddy **Company Secretary & Compliance Officer**

Encl.: As above



"Hikal Limited Q3 FY '23 Earnings Conference Call" February 02, 2023

Disclaimer: E&OE. This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 2^{nd} February 2023 will prevail.





MANAGEMENT: Mr. SAMEER HIREMATH – MANAGING DIRECTOR – HIKAL LIMITED

MR. ANISH SWADI – SENIOR PRESIDENT OF BUSINESS

TRANSFORMATION AND ANIMAL HEALTH-HIKAL LIMITED

MR. KULDEEP JAIN – CHIEF FINANCE OFFICER – HIKAL LIMITED MR. MANOJ MEHROTRA – PRESIDENT, PHARMACEUTICAL BUSINESS

- HIKAL LIMITED

MR. VIMAL KULSHRESTHA - PRESIDENT, CROP PROTECTION

BUSINESS - HIKAL LIMITED



Moderator:

Ladies and gentlemen, good day and welcome to Hikal Limited Q3 FY '23 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 the date of this call. These statements are not 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 Hiremath, Managing Director from Hikal Limited. Thank you and over to you sir.

Sameer Hiremath:

Thank you. Ladies and gentlemen, a very good afternoon to all of you and thank you very much for joining us today for our Q3 and nine months FY '23 earnings call. I am Sameer Hiremath, Managing Director, Hikal Limited.

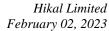
On this call, I have with me Anish Swadi, Senior President of Business Transformation; Kuldeep Jain, our Chief Financial Officer; Manoj Mehrotra, our President, Pharmaceutical Business; Vimal Kulshrestha, our President, Crop Protection business; and Strategic Growth Advisors, our Investor Relations advisors. I hope you had the chance to go through our earnings release, investor presentation and the financial statements for the quarter. These are available on website of Hikal, as well as the stock exchanges.

While the energy crisis in Europe, slower-growth rate across all sectors, internationally and rising inflation continue to cause macro-level geopolitical issues, cost, which peaked in '21 and '22 has steadied as raw-material prices have started to decline. While we see marginal benefit of the input prices softening this quarter, due to the inventory on-hand, we expected to improve with a lag effect in the upcoming quarters. These elements, along with our proactive actions and the expansion of our supplier base has helped in the stability of raw-material supplies.

Both our businesses face significant challenges during the first-half of this fiscal year, but as we had previously indicated, we anticipate an improvement during the second-half.

On the back of our cost improvement programs and business excellence initiatives that already producing positive results, coupled with some external factors that input prices softening, we expect a quarter-on-quarter steady improvement. We have had an improvement in performance sequentially and are working towards having a stronger end to the year, despite some macrolevel volatility caused by global uncertainties.

Customers are looking to diversify their supply-chain geographically, which continues to offer positive tailwinds for future growth. Margins continued to be impacted as expected and outlined in the previous call due to steep increase in cost of raw materials, solvents and utilities. Also,





the rising crude oil prices have significantly impacted energy costs. We, however, have seen some prices of some key raw material softening and expect that trend to continue in the upcoming quarters, thereby, marginally improving our margins and profitability.

Talking about the numbers for this quarter, we recorded a revenue of INR 540 crores against INR 559 crores in the previous quarter. Our revenue for the nine-month period stood at INR 1,478 crores against INR 1,440 crores the last year. We have been able to improve EBITDA margins by 130 basis points in Q3 compared to Q2. This is due to improvement in the product mix and cost-improvement initiatives. Hikal long-term credit rating is maintained at A+ by the ICRA. Also, the company has recommended an interim dividend of 30%.

Now, I'd like to hand over to our President of Pharmaceuticals Manoj Mehrotra to take us through the performance of the Pharmaceuticals Division. Over to you Manoj.

Manoj Mehrotra:

Thank you, Sameer. The pharma business recorded of INR 292 crores in Q3 FY '23 versus INR 290 crores in Q2 FY '23. The EBIT of the division stood at INR 26 crores, which is a 9% margin in this quarter, compared to 3.6% in the previous quarter. The corresponding revenue figure for the 9-month period stood at INR 806 crores compared to INR 822 crores last year. Our business excellence initiatives have resulted in reduction of costs, which has been partly absorbing the impact of higher input costs.

Regarding our business verticals, on the API side, over the years, we have added several new customers and strengthened our presence in new geographies such as the Middle East and Latin America. We have a strong development pipeline and we will launch three to four new products every year.

Our CDMO business continues to receive increased inquiry from existing, as well as new customer. Our future pipeline for CDMO business remains robust with multiple upcoming opportunities being worked on.

Our discussion with innovator Animal Health firms for new opportunities are progressing well. Development of processes on multiple active pharmaceutical ingredients as part of the multi-year animal health project with a leading inventor is on-track. And we intend to complete the plant commissioning in Q2 FY '24.

FY '23 has been a year of consolidation. We now find ourselves back on-track to chart the new growth trajectory. Q3 FY '23 show improved performance and this momentum will continue in the next quarter, helping us end the financial year on a strong note.

Now, I would like to hand over to our President, Crop Protection Vimal Kulshrestha, to take us through the performance of the Crop Protection business.

Vimal Kulshrestha:

Thank you, Manoj. Good afternoon to all the participants in this call. The crop business recorded INR 248 crores revenue in Q3 FY '23, versus INR 269 crores in Q2 FY '23. The EBIT for the



division was at INR 27 crores at 11% margin in Q3 FY '23 on the back of higher input cost of raw materials, solvents, energy as against INR 35 crores in Q2 FY '23 at 13% margin.

Corresponding revenue figure for the nine-month period stood at INR 671 crores, compared to INR 619 crores last year. All our plants continue to operate at optimal utilization. Demand for our own products was strong in the domestic market. We are focusing on optimal product mix to improve revenues and margins going forward.

Regarding our business verticals, our own product segment, demand for existing products remain intact from our key customers. We are also planning to complete the plant commissioning for our new fungicide by end of FY '23 and start revenue accrual early FY '24. We will also continue to explore new product opportunities in the business. In CDMO business, it continued to receive new inquiries from existing as well as new customers. We have several new inquiries in the pipeline.

Now, I would like to hand over to our Senior President of Business Transformation, Anish Swadi

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 key priorities for the short-term.

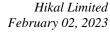
As you may be aware over several quarters now, we have been working with a global strategic consultant and have formulated the future strategic direction for the company.

From choosing the right products to strategic partners, right technologies for the future, including enhancing our R&D and manufacturing capabilities to stay ahead of the curve these initiatives being implemented will drive our future growth and profitability. On the cost rationalization front, our business excellence initiatives, including an in-depth capital efficiency program have started yielding positive results. We continue to work on improving our yields in solvent recoveries, including backward integration and a shift to renewable energy, and biomass.

Our Animal Health business continues to be on-track. Our deep relationships with global innovators to be a partner of choice in this space, based on our capabilities in handling complex chemistries and providing end-to-end support in developing processes for complex molecules and scale-up requirements positions us on a very strong footing.

The progress on our multiyear contract is going ahead as per plan. It is a diversified contract with multiple products in a multipurpose asset, which is expected to come on-stream in Q2 FY '24.

ESG is a pillar of our new strategic direction. While we have been active in the space of using clean renewable energy, we have also embarked on a journey to create a positive environmental footprint, all the way from development to manufacturing operations.





Hikal has made significant investments to facilitate the shift across all our sites. We are jointly working with our international partner to map out our baseline practices, and define a roadmap for achieving our ESG ambition of decarbonization, waste and water management. In the forthcoming year, you will hear from us about a lot more initiatives that we've launched to fast-track our journey towards leadership and sustainability.

With this, we will now open the floor to questions and answers.

Moderator: Thank you very much. We will now begin the question and answer session. First question is

from the line of Ankit Gupta with Bamboo Capital.

Ankit Gupta: We have seen a sequential improvement in our gross margins by almost more than 400 basis

points. But EBITDA margins have not improved that much, can be because of higher employee expenses and other expenses. So what was the reason for that? And our finance cost has also

increased during the quarter. So if you can talk about the reasons for the same?

Sameer Hiremath: Yeah. I think the fixed cost if we look at the personnel cost, we have done a lot of recruitments

for the new plants that we're commissioning in the next couple of quarters, so those people have already been recruited, because there is a lag for commissioning and training of the employees.

And we've had some recruitments for it. And due to that the personnel costs have gone up.

On the finance cost, our debt has gone up marginally to fund this capex and there's also been an

increase in interest rates when compared to the last year same period. So, these are the two increases that we've had. But this is just one-quarter type of impact. I think on an annualized

basis, we had planned for this and once the plants start delivering results from next year this will

even itself out.

Ankit Gupta: And on the capex front, how much capex have we spent on the new agrochemical plant and then

new veterinary API plant and how much asset turns, can we expect from both these plants?

Sameer Hiremath: So, yeah, I'm not giving the exact breakup of the two, but as I said in the last call, we are doing

about INR 300 crores of capex this year. And the asset turns that we're anticipating is between

1.4 to 1.5 at full utilization, at peak utilization, which should be after a couple of years.

Ankit Gupta: Sir, because if we look at Sameer last year also, we did almost INR 270 to INR 280 crores of

capex, actually because of the industry and the challenges we had to face over the past three-four quarters, we haven't seen a subsequent increase in the top-line. So if you look at INR 300

crores of capex this year and almost INR 270 crores of capex last year, so we have almost spent

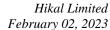
INR 570 crores of capex in the past two years. So all this could result in increased top-line over

the next two-three years?

Sameer Hiremath: That's correct. It will take two to three years for peak optimization of the capex.

Ankit Gupta: So, let's say INR 550 crores of capex over FY '22 and FY '23 should result in at least INR 700

to INR 800 crores increase in our top-line?





Sameer Hiremath: Over the next two to three years.

Ankit Gupta: Also, if we look at our company, in past 4-5 years in FY '18, we did almost INR 1,300 crores

kind of revenue and operating margins were around 18.5% and in FY '22 we touched almost INR 1,900 crores revenue almost 35% to 40% percent kind of growth we have seen in the top line. Despite that our margins did not increase significantly. They have remained in the range of

around 18% to 19%.

So when we achieved INR 3,000 crores kind of top line, do you think we can reach to our ambitious target of 22% to 24% or even 25% kind of EBITDA margins, because in the past, we haven't seen operating leverage kicking-in, our business and our margins haven't increased in-

line with increased that we have seen in our top-line?

Sameer Hiremath: Ankit, as I've been saying consistently in our last few calls as well, we've been spending the last

few quarters on real product mix rationalization. And all the new products that we're launching and the new capex that we're doing, which is a much higher gross margin, much better EBITDA

margins and much better asset turns.

So the blend, as you said, we just spend INR 575 crores to INR 580 crores in the last two years that's at peak utilization that will result in X number, which you mentioned in that. The EBITDA margin of that addition will be significantly higher than our historical EBITDA of 18% to 19%.

So we anticipate the EBITDA to get towards 21%, 22% in the next couple of years.

Ankit Gupta: Sure sir. Thank you. That helps. Thanks a lot and wish you all the best.

Sameer Hiremath: Thank you.

Moderator: Our next question is from the line of Pranay Dhelia with Panchatantra Advisors, LLP.

Pranay Dhelia: Hi Sameer, good evening and good evening to everybody else. We are very happy to see that we

are back to all-time highest revenue. What is only concerning is margins, that you answered, just a couple of quick questions on this. What is the total debt as of now this quarter vis-à-vis last

quarter?

Sameer Hiremath: Kuldeep can you answer?

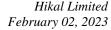
Kuldeep Jain: INR 800 crores debt profile at this moment.

Pranay Dhelia: I couldn't hear you, sorry.

Sameer Hiremath: It is INR 800 crores. Total debt, INR 800 crores.

Pranay Dhelia: How much of it is long-term and short-term?

Kuldeep Jain: INR 500 crores in the long-term, INR 300 crores in the short-term.





Pranay Dhelia: Okay. And what is the cost of funding for the long-term and short-term?

Kuldeep Jain: We have a cost of funding 8.5% for long-term and 7% for the short-term.

Pranay Dhelia: Okay. And when do we start repaying this debt, because I believe, because of the capex, we have

more or less done with the - this is a peak debt I would assume. So, when does the repayment

start?

Kuldeep Jain: Yeah, we are only repaying certain loans, which we borrowed two-three years back. Whatever

loans we have borrowed now will have a two plus six-year moratorium (this was erroneously mentioned – this needs to be read as two years moratorium and repayment of 6 years). So every

year we are paying loans, repayment of the loans.

Pranay Dhelia: So it would be safe to assume this is the peak debt. We are not going to be borrowing more for

further capex?

Kuldeep Jain: See, unless we have the -- more or less, yes. But unless we have some good project, we'll go for

this.

Pranay Dhelia: Okay, great. And just to the Crop Protection, as well as Pharma, what has been the volume

growth we've seen this quarter?

Sameer Hiremath: Yeah, one second, I just have those numbers. On the volume growth for Crop Protection for the

company has been about 5%. For Pharma, volume growth has been about 20% for Crop, there

has been a de-growth in volume of about 18%.

Pranay Dhelia: So, Crop, we've seen de-growth in volume 18% and Pharma 20% increase.

Sameer Hiremath: Crop increase of 20%, Pharma de-growth of about 17.5%.

Pranay Dhelia: Is this primarily because of the excess stocking, with almost every company? And when do we

expect this to improve?

Sameer Hiremath: So we expect a couple of more quarters. I mean, at least by quarter one to quarter two of next

year, we expect Pharma business volumes to start coming back. And what we are doing in the meantime, even though our volume has gone down almost more than 17% in Pharma, from a value perspective it still increases our value. So we've been able to change the product mix. We

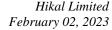
have more high-value products.

Pranay Dhelia: And what is the capacity utilization at our manufacturing places?

Sameer Hiremath: About 80%.

Pranay Dhelia: Across both Pharma and Crop?

Sameer Hiremath: Yeah, maybe 80% to 85% depending on the site in that range.





Pranay Dhelia: Okay, great. That answers most of my questions. It's just that our revenues are back to a peak,

our EBITDA margin as you're saying will catch-up shortly within the next quarter and we'll be seeing EBITDA margin improvement. So, we can safely assume that we'll be back to our target

as Hikal itself projected INR 200 crores of PAT in the next year, year and a half?

Sameer Hiremath: We are starting to -- start coming back. I mean, as I mentioned in the last earnings call, we're

doing a sequential improvement quarter-on-quarter. Even this quarter was better than last quarter from our margin with absolute EBITDA absolute profit, although revenues were down, we improved our product mix. We did cost optimization, and the new capex is a common stream for quarter one of next year. And quarter two, quarter three will start benefiting next year and we'll start moving back to our steady-state, pre-'22 margins, we start getting back to that towards

from quarter two onwards I think next year.

Pranay Dhelia: Great. So it's just that you've been out-of-the billion-dollar club for some time, hopefully our

company regains that very soon.

Sameer Hiremath: Yes, thank you so much.

Pranay Dhelia: Thank you. Wish you all the best.

Sameer Hiremath: Thank you so much.

Moderator: Our next question is from the line of Sajal Kapoor, Independent HNI.

Sajal Kapoor: Yeah, thanks for the opportunity. I have a couple of qualitative questions please, so many new

Indian CRDMO players who were previously focus purely on the human pharma domain are now scaling up there NCE-CDMO in animal, as well as agrochemicals, as they have secured

firm commitments and commercial contracts from global innovators.

So the question is how do you see this emerging landscape from both the opportunity size as it's becoming increasingly clear that global innovators are now looking at India as a credible source on a much bigger scale and so that should help Hikal, but also from the comparative landscape perspective, because if new players are adding animal and agro and custom synthesis to their domain and capability, does that not mean increased competitive intensity from these Indian

players who were previously not into agro and animal CRDMO, right? So that's one.

And secondly, Hikal has started the Pune R&D center for innovator synthesis and generic R&D about 14 years back, I think in 2009, and yet we have not seen any material traction in the NCE-CDMO segment as majority of our CDMO revenues today, it's still coming from supplying those off patent molecules to innovators versus some of our competitors in India, who started this segment of NCE scale-up just about seven, eight years back and they have demonstrated significant traction in there NCE scale-up and commercial shipments. So why it took us so long

to scale-up on our NCE grants? Those are my two questions. Thank you.



Sameer Hiremath:

Yeah, so I'll answer the second one first. I think, well, if you look at our shift, which has been now, I think several new projects in NCE development and they're getting commercialized, so. I mean why it happened in the past, I mean that's also -- rather than talking about the past, let's talk about the future. I think the future is very bright. There are several new projects in both NCE both Pharma and in Crop where we're developing products, which are on patent and under for registration and on the animal side as well.

So the future will look very different from the last 10 years of -- what do you say 14 years. And if you started up Pune with it was a CRO, it was not CDMO R&D site. We're doing contract research for FTE basis. So that was the change in business model about four, five years ago and we changed the business model of Pune.

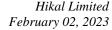
So yes, you're right, we started in 2009, 14 years ago, but for almost eight to ten years, we did CRO work in Pune and the development only started four or five years ago and those projects take time as you said seven, eight years, but I think we're seeing lot of light at the end-of-the tunnel and several projects are moving into clinical Phase-III and Phase-III and we're getting some good traction on the customer side.

Your first question was regarding increased competition in animal and crop. I mean, yes, there are a few players who are looking at trying to do both, but eventually, it's about scale and about track record. And there is -- we have both for over 20 years. So there will be increased competition because there is increased outsourcing happening. But you have to have a track record. We've already got deep customer relationships with our customers and have been proven with our multiyear project contract that we signed with a big innovative company. So, we will work with companies of size and both our divisions are of significant scale now with a track record of almost 20-30 years in both and we have bluechip clients and they're talking of doing much more with us.

Customers also looking at a consolidated supplier base while you may have a new entrant in this space that doesn't mean you have guaranteed business, just because you have plant. You have to have a relationships, you have to our track record from the FDA. There are some many other angles to get business. And Hikal has ticked the boxes and most of these and yeah, we are not the only ones in this space, but we are one of the top-tier in these two segments, and the third segment in animal. And we'll continue to grow and so will some of our competitors, and we'll show above industry growth going forward in these segments.

Sajal Kapoor:

Right, Sameer. So that's helpful. So just to clarify, when I look at our historic gross margins and we have been hovering -- let me say pretty flat in this broad range of 45% to 50% gross margins, whereas, we all agree that the innovator NCE scale-up margins are significantly better, but I understand that you just mentioned, we changed our strategic positioning only four, five years back, so past is not the right way to look at our gross margins and future will be significantly better. So can we assume that over the next, let's say four, five years, our gross margins will be materially better, even on a blended basis, than what we have been delivering in the past?





Sameer Hiremath: That's an absolutely correct statement, because the CDMO business gross margins are

> significantly better than of the generics margins, which we have historically had and our portfolio is changing. Over the next few years, we're doing a dramatic change in-product portfolio. And we're looking at optimizing and replacing some of the older molecules with new generation, higher margin products. So I'd use our current assets to do that. So, the margin profile

will undergo significant change in the next three to four years compared to where we are today.

Sajal Kapoor: Right. We all hope so and wish you guys the very best in terms of execution as we wait-and-

watch. Thank you so much.

Sameer Hiremath: Thank you so much.

Moderator: Our next question is from the line of Mr. Kunal with Carnelian Asset Management.

Kunal: Hi, thank you for the opportunity. My question was on the Crop Protection business. So, you

> mentioned about volume de-growth, whereas, in the last quarter, if I understand correctly, the demand for agrochemicals continued to remain strong for both the CDMO and home product segments. So, just wanting to understand, I mean more on the Crop Protection side and also on the margin side, how should we look at that going ahead? That was the first question, regarding

Crop Protection.

The second is also the ongoing capex at Panoli, Gujarat, right, which you can help the status of

the same it would of great help?

Sameer Hiremath: I have answered the first question. I hand it over to Vimal to answer the second. I think there is

no volume de-growth in Crop. The volume de-growth has been in Pharma. There's been a

significant volume growth in crop actually. So I just like to clarify that for you.

And the second part of the question, Vimal, if you can take that please?

Vimal Kulshrestha: So, I'll answer that...

Kunal: I mean -- so levels of volume growth in the Crop, but then the value growth was not there, if I

understand correctly?

Sameer Hiremath: That is because of product mix and it's quarter-to-quarter, I think we should look at it more from

a nine-month basis. From a nine-month basis, our volume and value and both grown for the Crop

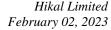
business, it will be a quarter-to-quarter change.

Kunal: The number, which you mentioned was for nine-month or for a quarter-on-quarter basis, the

volume growth number that you mentioned?

Sameer Hiremath: Only for the quarter, I mentioned it.

Kunal: Okay. If you would help with the second part of the question on the capex plan?





Vimal Kulshrestha: Yes, so we have completed the mechanical completion and we have started commissioning of

this plant. We expect to start production from Q1 of FY '24 and revenue accrual subsequently.

Kunal: The revenue for this Panoli plant basically would start from Q1 FY '24?

Vimal Kulshrestha: Q1 FY '24, yeah.

Kunal: And what are the amount that we have spent on that?

Vimal Kulshrestha: So I'll not be able to give you a breakup of that spent, but total last year as Sameer has mentioned,

we spent INR 300 crores capex, I mean this year.

Kunal: That's the total capex, anything specific for this particular plant.

Vimal Kulshrestha: Yeah, so the split we'll not be able to give you.

Kunal: Okay, fair enough. And what is the amount of capex that is yet need to be spent in the current

year, or are we done completely with that complete capex and now only maintenance capex will

be there?

Sameer Hiremath: Our CFO will answer this.

Kuldeep Jain: Yeah. So we will be spending INR 100 crores more during this quarter four.

Kunal: Sorry, INR 100 crores more for which particular financial year?

Kuldeep Jain: No, it's all together for the company.

Kunal: So INR 100 crores is yet to be spent basically is what do you mean.

Kuldeep Jain: Yeah.

Kunal: Okay, Thank you.

Moderator: Our next question is from the line of Jay Bharat Trivedi with Centrum Broking Limited.

Jay Bharat Trivedi: Hello. Thank you so much for the opportunity, sir. Am I audible?

Sameer Hiremath: Yes.

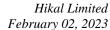
Jay Bharat Trivedi: Yeah. So my first question was regarding the raw material prices, as you rightly said, in your

initial comments that the raw material prices have softened and the effect would be seen with the lag in next quarter. So do we have witnessed any price softening impact in current quarter as

well?

Sameer Hiremath: Well, current quarter not much, because there was inventory, it is a lag effect always. So it was

marginal.





Jay Bharat Trivedi: So the complete effect would be seen in next quarter, Q4?

Sameer Hiremath: Q4 onwards, yeah, Q4 and then Q1 next year.

Jay Bharat Trivedi: Okay, thanks. And my second question would be regarding the channel inventories, in both your

Pharma and Crop Protection segments. Can you throw some light there?

Sameer Hiremath: Well, Pharma channel inventories are still there, they've come down in the last couple of

quarters. But we expect with this thing, we still think it will take one or two more quarters for the channel inventory in the Pharma space to build up. On the Crop side also there has been some channel inventory build-up. Again we think about one to two quarters of correction in inventory demand will be there in the crop business also. But we're derisking this to a large extent by product mix optimization and increasing the number of products, we have a big basket of products, we can move around. So that's how we are making sure that we try and maintain

revenue growth and our margin improvement.

Jay Bharat Trivedi: Okay, thanks. That's it from my side and all the best sir.

Sameer Hiremath: Thank you.

Moderator: Thank you. Our next question is from the line of Dhwanil Desai with Turtle Capital.

Dhwanil Desai: Hi, team. Sir, my first question is on this multipurpose plant that we are putting out for animal

health -- global animal health provider. So if I understand correctly that will come on stream in Q2 FY '24. So will there be a period for stability batches and validation and how long that will

be? So when will the commercial supply start from that plant?

Sameer Hiremath: I'll hand it over to our Head of Animal Health. Anish if you can take this?

Anish Swadi: Sure. So yes, as you correctly mentioned, yes, there will be a period of validation for the products

that we put through and that will take anywhere between about 11 to 12 months from the date

of commissioning the plant.

Dhwanil Desai: So the commercial supply will start from FY '25 second half. Is that a fair assumption?

Anish Swadi: Yeah, that's the correct assumption, yes.

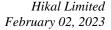
Dhwanil Desai: Okay, got it. And the second question is Anish, we talked about RM prices softening, but how

is the trend on realization because generally what we have understood is that in lot of products, the realizations also have come down. So, will it impact our revenue growth objectives in any

manner?

Anish Swadi: For the Animal Health business or for general space?

Dhwanil Desai: No, for both Crop Protection and Pharma in general.





Anish Swadi:

Look, I mean, as you've seen that in Crop Protection basically prices have been more or less stable. In Pharma business, you've seen some price has come down, especially if you look at what other companies have also reported, the generic market primarily in the Pharma business has been pretty shaken up. So the US market has been quite severely affected and prices have come down substantially.

Now with the softening of raw materials, it's yet to be seen whether prices remained stable or even further come down. As of now, we are seeing most of the prices holding steady. But we'll see probably by mid-to-end of next quarter, what happens to the prices.

Dhwanil Desai:

Okay. So in that context, how do we see volume growth both for Pharma and Crop Protection for FY '24?

Anish Swadi:

I think for Crop Protection, I think volume growth is mixed, as of now, there are a lot of global macro uncertainties. Yes, we do have contracts in-place, but because of the uncertainties, people are reluctant to commit for the entire financial year or the calendar year. So we are seeing some changes, but for the most part, it seems to be intact. I think on the pharma business, it's a little more volatile because of the generic market. From a CDMO perspective, it's definitely more stable than what you see on the generic side. So it's still a work-in progress.

Dhwanil Desai:

Okay. So are you factoring in 12% to 15% volume growth for next year or any ballpark number around that?

Anish Swadi:

Yeah, well, at this point in time, we're not giving any future forecasts. Right now, we're just trying to see what the customers are asking for, what's confirmed and then we'll build-out a forecast. So we'll probably have a better idea at the end of Q4.

Dhwanil Desai:

Okay, got it. Thanks. That's it from my side.

Moderator:

Thank you. Our next question is from the line of Gokul Maheshwari with Awriga Capital.

Gokul Maheshwari:

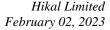
Yeah, thank you for the opportunity. Sir, in these previous questions you answered about the gross margin profile changing more from a direction sense from the next three to five years. In the past seven to eight years our return on capital employed have been around the mid-teens. How would this change as you are changing the business model more towards higher gross margin products, more NCE products?

Sameer Hiremath:

No, I think the return on capital employed it will start increasing year-on-year, because the new products and the new capex that we put in place, the ROCE targets are much higher than the blended current ROCE that the company has been doing historically. So we are looking at growing up 16% to 17% to 18%, ROCE going forward in the next couple of years.

Gokul Maheshwari:

Okay, great. Thank you so much. This is helpful.





Moderator: Thank you. Our next question is from the line of Ankit Gupta with Bamboo Capital, please go

ahead.

Ankit Gupta: Yeah, thanks for the opportunity again. If you can Sameer talk about how many molecules on

the Pharma CDMO side do we do for innovators, how many of them are commercialized, how

many of them are in Phase II or Phase-III.

Sameer Hiremath: Yeah. I hand it over to Manoj. Manoj if you can this answer?

Manoj Mehrotra: Yes, see, we are bound by certain confidentiality agreements with the customer. So it's very

difficult for us to give a number how many are in Phase-II, how many are in Phase-III. But by and large, our business model says that we entered into this development more in Phase-III, because Hikal has got manufacturing facilities for higher volumes. And we have several customers who are there in that segment currently. You see them going towards

commercialization in 2024, 2025.

Ankit Gupta: Yeah, and how many are currently in commercialization stage, like, how many molecules are

we manufacturing, which are already approved till Phase III, Phase IV?

Manoj Mehrotra: Five molecules, which are already in commercial phase at this point of time. They are all key

starting materials and they will ramp-up as we go further.

Ankit Gupta: Sure, sure. And on the overall business side, given the uncertainty on the Agrochem side, do we

still stick to our guidance of mid-to-high teens growth in FY '24?

Sameer Hiremath: I think we are not giving any guidance for next year. I think we are waiting and watching. We

will come back at the end of quarter four. There are a lot of macro global uncertainties as I said

in my opening remarks, so we are waiting and watching.

Ankit Gupta: Sure sir, but at least on the Pharma side we are pretty confident of achieving the higher growth

numbers that you were targeting earlier, because that hasn't been impacted much compared to

agrochemicals.

Sameer Hiremath: No actually, agrochemical hasn't been impacted much compared to Pharma. Pharma generic

industry has got impacted severely this year. We expect things to start improving from quarter

two onwards of next year as of now.

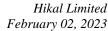
Ankit Gupta: Sure, sure, okay, thank you, and wish you all the best.

Moderator: Our next question is from the line of Rohit Nagraj with Centrum Broking.

Rohit Nagraj: Yeah, thanks for the opportunity and congrats on a sequential growth in terms of operating

performance. So first question in terms of the capex, so you indicated in the earlier question that till now we have invested about INR 300 crores and another INR 100 crores in Q4 that will be

close to about INR 400 crores invested during this year. What kind of asset turns are we looking





at from this capex and how much part of this capex is already converted into revenues during FY '23? Thank you.

Sameer Hiremath:

So the total capex is going to be around INR 300 crores. So it's not going to be INR 400 crores. We currently spent about INR 200 odd crores for the nine months and the balance INR 100 crores will be spent in the last quarter, taking our total to around INR 300 crores, slightly over INR 300 crores.

With peak asset turn that we expect for this is between 1.4 to 1.5, but that is two to three years after commercialization. This is basically divided two major plants. One is the Animal Health plan, which comes on stream in Q2 FY '24 and the second part is the Crop Protection multipurpose asset, which is commissioning this quarter and commercial production will start from next quarter.

Rohit Nagraj:

Right. And any guidance on capex for FY '24?

Sameer Hiremath:

It's too early right now as we are in budgeting process as well. So, the priority is now to complete this residual capex that we have, commission our plants and optimize our product mix and wait-and-watch on the global environment. We're getting lot of new inquiries and we're looking at finalizing some major long-term contracts. And in the meantime, the debottlenecking of our current assets needs to improve asset turns from our current setup. So we're going to wait for a quarter or so before we finalize our large capex.

As of now, we want to complete over the next three to four months, all the pending capex, so that by end of quarter one all the capex is completed. And then we start generating revenues and improving our margins and ROCE that will be our priority for next year. And if a major new contract comes up, then we will look at putting in new capex.

Rohit Nagraj:

Right. Yeah, just to understand a bit better in terms of the conversion of capex into assets, so normally, what will be the timeline, if let's say, some order comes in Q1 FY '24 in terms of executing the project and putting the steel on the ground and starting production?

Sameer Hiremath:

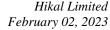
See typically between -- acquiring a business, first there is a process development, then there is piloting and then there is capex. So it takes anywhere between 18 to 24 months after acquiring a contract depending on the size of the project.

Rohit Nagraj:

Right. Just one last question. In terms of customer acquisition, any new customer acquisitions, which have happened over the last three quarters in Pharma as well as Agro?

Sameer Hiremath:

Yeah, there were actually some very exciting customer acquisitions, but unfortunately they are all bound by confidentiality, where the top Blue Chip companies in both Crop and Pharma that we've acquired customers and we've already got some RFPs and some projects that we started with them. And that is significant traction with new customers that we're acquiring and there are lot of audits and customer visits taking place right now at our sites. And when we are positioned to talk more, I'll be happy to talk more about this.





Rohit Nagraj: Sure, thank you so much for answering all the questions, and best of luck, sir.

Sameer Hiremath: Thank you so much.

Moderator: Thank you. Our next question is from the line of Ashish Poji, Individual Investor.

Ashish Poji: Good afternoon, sir. Thanks for the opportunity. The reason for acquiring stakes in solar, instead

of buying solar power, you are buying stakes in the company who is providing solar solutions

of some type. That was one.

And second part is when are we going to become truly zero effluent company, which should be

possibly in-line with your ESG commitments?

Sameer Hiremath: Okay, I'll answer the question, one part, and the solar part, I will hand it over to my CFO who

is looking after it. From a zero effluent, our Pharma business, already is zero effluent in Bangalore. We have already implemented that. Any new projects that we're implementing in our Crop and our Pharma side right now are all zero effluent, we are recycling. So over a period of time, our water consumption per kilogram of products being produced is decreasing year-on-year and our waste generation also decreasing year-on-year. We are monitoring this. And we have very strict targets over the next couple of years as part of our ESG initiatives that we've

taken.

So we are moving towards reducing our water -- our carbon footprint and recycling of our waste

to a very large extent, and it's a work-in-progress. And solar is also part of our ESG initiatives

to increase our renewable energy initiative.

Kuldeep Jain: So, we have signed an agreement with a solar vendor for the 12 Megawatts power for our

Maharastra units, which will start giving power by this month.

Ashish Poji: So it would be replacing your existing power consumption from GED?

Kuldeep Jain: Yes, definitely -- from Maharashtra Electricity Board, definitely.

Ashish Poji: Okay. So how much of benefits, we would be achieving in that?

Sameer Hiremath: The payback is very good, it's less than one-year.

Ashish Poji: Okay.

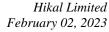
Sameer Hiremath: One is the cost and second is the ESG and the carbon footprint that's also is a very big benefit,

which is very positively viewed by our customers and I'm sure investors also look at that, and if

you look at the carbon reduction, decarbonization that we are doing.

Ashish Poji: Okay. And just to add to my first question of zero effluent. Zero effluent would mean that, no

effluent is being given to the third-parties. What was being done and what we face the problem?





Sameer Hiremath: Yes, yes, so our Pharma side have already moved to zero effluent. In our Crop side also, we are

moving towards that in a phased manner.

Vimal Kulshrestha: For the new projects.

Ashish Poji: And for the existing one?

Sameer Hiremath: The existing one also there is a major waste reduction program, which have been implemented

in the last 9-10 months and this is a work-in-progress and every quarter we're reducing our effluent reduction and very little is going out to designated authorities, it is reducing quarter-on-

quarter.

Ashish Poji: And any update sir on the court case?

Sameer Hiremath: Anish if you can take this?

Anish Swadi: Yeah, so the court case is still ongoing, we won in the Gujarat High Court. We won a positive

order in the Gujarat High Court, and right now it's status quo in relation to the Surat incident.

Ashish Poji: So that matter is over, does that mean sir?

Anish Swadi: It means that the court cases are still going on in the background that is basically dates are being

given by the courts as the matter has not come up yet.

Ashish Poji: Okay. So it's going to linger on for some more time?

Anish Swadi: Yeah. I mean that's the Indian judicial system as of now, right. It takes time.

Ashish Poji: And we are not planning to do any provisioning for the same as a prudent measure?

Anish Swadi: Provisioning with relation to what exactly?

Ashish Poji: In case any liability arises.

Anish Swadi: No, not at this time. We are very confident in terms of our case. So at this point in time, we're

not doing any provisioning.

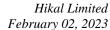
Ashish Poji: Right sir, thanks a lot.

Moderator: Thank you. As there are no further questions, I would like to hand the conference over to Mr.

Sameer Hiremath for closing comments.

Sameer Hiremath: Thank you. Thank you everyone for joining our quarterly earnings call and for your continued

interest in the company. FY '23 was anticipated to be our year of consolidation, while input prices have begun to soften in terms of pricing, several uncertain macro challenges are still on the horizon. However, we expect the sequential recovery to extend into quarter four. The





increasing number of customer inquiries, product mix optimization, cost-improvement, and business excellence initiatives have put us in a stronger position to remain competitive and win new opportunities, and so as we sign on new multinational clients for long-term contracts.

I would want to reaffirm, all of you that the pipeline is strong and the future is bright for both our businesses. We are certain that we will hit the goals we have been aiming for over the previous quarters.

With that, I would like to close this call. Should there be any further questions, please feel free to reach out to us or Investor Relations partners, Strategic Growth Advisors. Stay safe. Take care and wish you a very good evening. Thank you very much.

Moderator:

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