"Hikal Limited Annual Earnings Conference Call"

May 10, 2018

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Moderator: Ladies and gentlemen good day and welcome to Hikal Limited Annual Earnings Conference Call. This conference 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 the guarantees of future performance and involved risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in 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 "*" and then "0" on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Anish Swadi, Strategy & Business Development Head, Hikal Limited. Thank you and over to you Sir!

Anish Swadi: Good afternoon everybody and welcome to our earnings conference call for the annual results. Along with me I have Mr. Sameer Hiremath, Joint MD & CEO, Mr. Kuldeep Jain, Financial Controller and Strategic Growth Advisors, our investor relations advisors. I hope you have had the opportunity to take a look at our Q4 and FY18 results, which have been circulated and uploaded on our website and the respective stock exchange. Since we are hosting the conference call for the first time I would like to give a brief update on the business model of the company.

Hikal is a leading sustainable technology driven company manufacturing advanced intermediates, active ingredients and active pharmaceutical ingredients. We partner with pharmaceuticals, life sciences, biotechnology, agrochemicals and specialty chemical companies to deliver active ingredients, intermediates and R&D services. We are one of the few companies globally with a hybrid model catering to multiple segments across the value chain. Our company has five manufacturing facilities and one research and technology center. We have two divisions, the pharmaceutical division and the crop protection or agrochemical division. Our pharmaceutical division contributes 60% to the revenues with the balance 40% contributed by the crop protection division. I will now discuss both the divisions in brief.

Our crop protection business; Hikal partners with crop protection companies for custom synthesis and custom manufacturing of intermediates and active ingredients. We manufacture herbicides, fungicides and insecticides. We also have our own niche portfolio of products for the specialty chemical and biocide industry. Contract manufacturing approximately contributes 70% with the balance contributed by our own proprietary products and specialty chemicals and biocides.

In contract manufacturing we work with global innovators. We have a proven successful and scalable track record of developing crop protection products from gram to kilo to tonne scale at our kilo lab, pilot plants and commercial plants, which meet the stringent regulatory and customer requirement. We work with several of the top crop protection companies globally. Majority of the crop protection business is export oriented. We have three sites dedicated for crop protection, one at Mahad, the other at Taloja and one at Panoli. In our crop protection division we have around 10 to 11 products in the contract manufacturing business and about 5 to 6 of our own products. No single product in the contract manufacturing business constitutes more than

15% of the business. Currently we have 9 to 10 products under contract manufacturing. We are also working on a few niche patented products in this segment.

In the specialty chemicals business, we offer specialty biocides and antimicrobial actives and additives. These products are used in industries like leather, paint, paper, water treatment, personal care, building materials and textile industry.

Now I will talk a bit about our pharmaceutical business. We are leading custom development and API manufacturing partner to global innovator companies. Our team has extensive domain expertise in developing products and an established track record of scaling up from gram to kilo to tonne levels of production. We partnered with global pharmaceutical companies in contract research and development where we offer contract research services for synthesis, process development and manufacturing. Custom synthesis and contract manufacturing of intermediates as well as API. Approximately 50% of our business comes from contract manufacturing and remaining 50% of the business is generic by nature. We have about large scale five to six products in contract manufacturing and about eight to nine products in the generic portfolio.

Majority of our pharmaceutical business is export oriented with about 55% of the sales coming from the US, 30% coming from Europe and remaining amount divided more or less equally around the rest of the world. We have three sites dedicated for the pharmaceutical division, one at Panoli in Gujarat, the other two in Jigani near Bengaluru. A little brief about our manufacturing facilities. We have two units in Jigani, Bengaluru unit I and unit II, these are pharma manufacturing sites. Unit I is approved by the USFDA for manufacturing intermediates, advanced intermediates and APIs. We have another site at Panoli, Gujarat, this site received USFDA accreditation in September 2012 and EU GMP approval in 2014 of January. We manufacture intermediates and advanced intermediates at this site. We also have a chemical facility adjoining this site, but separated, which manufactures products for our crop protection division.

Another site that we have is in Mahad, Maharashtra. This belongs to the crop protection division. It is the first manufacturing site of Hikal, which established in 1991 and the site facilitates the manufacturing especially chemicals, fungicides, herbicides and intermediates. The site also manufactures on patent ingredients for innovator companies. Another site in Taloja, Maharashtra which also belongs to the crop protection division was commissioned in 1997 in a technical collaboration with Merck & Company in the US. The site facilities manufacturing fungicides, insecticides and intermediates. This site also manufactures on patent active ingredients for innovator companies.

Pune, our research and technology center provides process research and technology development services for both our divisions. All these sites are frequently originated by multinational innovator companies from US, Europe and Japan beside the mandatory audits by the respective global regulatory authorities. We would also like to highlight that last year we successfully completed the fifth USFDA audits for the Jigani unit I Bengaluru facility with zero observations by the USFDA.

Now a few updates on our performance for the financial year ended 2018. During the year the company's long term credit rating got upgraded from BBB+ to A- and short term credit rating from A2 to A2+ by ICRA. This year we are working towards and expecting another upgrade with respect to our credit rating. Our strategy for the company is to service our existing contracts, gain market share in our generic API, build and develop new relationships with innovators, while we develop new APIs for our generic product portfolio. We are doing this by diversifying our product on client base, while expanding our capacity to meet the increase demand.

Our target is to file four to five DMFs every year and continue to generate our own intellectual property to process patents and differentiated technology. As the company, going forward, we expect 15% to 20% growth over the next two to three years. We are positive on maintaining the current margin profile for both the segments. Now, as a strategy, we are progressing towards more value added products and opening newer and emerging geographies like Russia, Latin America and others where we are gaining traction. In case of the pharma division 40% of our customers are repeat clients. We are strengthening our generic portfolio with new launches in the upcoming years and are working on expanding our portfolio of business with existing clients on the contract manufacturing side.

Coming to our financial performance of the company, I would like to handover the call to our financial controller, Mr. Kuldeep Jain to highlight the same.

Kuldeep Jain: Thank you. Thank you very much Anish. Good evening everybody. My name is Kuldeep Jain, financial controller for the organization. Anish has already taken you through with the -business model, I will take you through the financial for March 2018. I will talk the quarter first. The revenue for the quarter ended March 31, 2018 was 390 Crores as compared to 315 Crores last year, which is a growth of 25% on year-on-year basis. The crop protection business grew by 28% from Rs.137 Crores to Rs.176 Crores. The pharma division grew by 21% from 178 Crores to 215 Crores.

The EBITDA for the quarter ended March 31, 2018 is Rs.71 Crores as compared to 58 Crores in the last year, which is year-on-year growth of 23%. Very importantly the cash PAT for the quarter ended March 31, 2018 is 47 Crores as compared to 46 Crores in the last year. I will take you through now the year ended for the entire YTD. The revenue for the year ended March 31, 2018 will be 1300 Crores as compared to 1034 Crores in the last year, a growth of 26%. The crop protection business grew by 29% from Rs.423 Crores to Rs.547 Crores. The pharma division grew by 23% from 611 Crores to 753 Crores. The EBITDA for the year ended March 31, 2018 is 242 Crores as compared to 197 Crores in the last year with a growth of 23%. The cash PAT for the year ended March 31, 2018 is 163 Crores as compared to 140 Crores in the last year with a growth of 16%.

Coming to our balance sheet ratio the gross debt of the company stands at 515 Crores and the net worth of the company stands at 670 Crores. Just to brief about the working capital, working capital days has also reduced to 150 days from 160 days last year. The board has recommended a final dividend of 50 paise per share, this actually aggregates Rs.1.2 per share including interim dividend we declared in the last quarter 70 paise. The board has also recommended issue of bonus shares in the ratio of one equity share for every two equity shares held with subject to approval of the member of the company. We now open the floor for the questions.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. We have a first question from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

Sudarshan P: Thank you for taking my question. Sir my question is around both parts of your business the crop protection side to start with. The last two quarters has been pretty buoyant in terms of growth, Sir I would like to understand number one is what we are hearing is that the overall inventory channel especially in Brazil and other markets have come down and the crop economics is also improving across major crops I mean soya, corn and second one is if you can also throw light with respect to your own molecules. I am sure that number of molecules that we are working with so what has really led to this kind of a growth whether it is new client addition or molecules progressing from smaller scale to higher scale and kind of give colour with respect to what is the kind of size of this business what you envisage in probably the next two to three years?

Sameer Hiremath: This is Sameer Hiremath, CEO of Hikal. Coming to your first question about what is driving the growth in crop protection business. I think the reason for the growth in business as you correctly mentioned, the crop protection business globally goes through a cycle every six to seven years. I think the downturn has already taken place in 2016 and 2017 and the inventory channels have been that you have been consumed from the inventory channels so real demand is coming in from all our customers and that has started to play in from our Q3 and Q4 onwards and we expect that demand to continue going forward. A large part of our growth this year came from existing molecule, which went up in volume to increase demand, but also due to introduction of some new products that we did for some of our large innovative clients from the crop side, which we launched in the early part of 2017, which came traction over the entire year. Being a quality supplier we are getting a lot more business and what we are seeing is because of the problem being faced by the Chinese chemical industry a large part of the business is shifting towards India and for reliable companies like Hikal we are seeing a lot of growth opportunities and lot of enquiries for enhanced business from a lot of large big crop protection companies going forward.

Sudarshan P: Sir with respect to how you believe the traction is going to take place over the next two to three years I mean in terms of size and in terms of the business salient where do you think this crop protection business would be there in the overall scheme of things?

Sameer Hiremath: Well I think we are pretty comfortable growing in about 15% to 20% in our crop protection business going forward and we already have several molecule in development, which we will be launching year-on-year, we are pretty confident of growing between 15% to 20% going forward year-on-year.

Sudarshan P: And Sir just another thing on the crop protection business is while you mentioned about the Chinese competition and its setting down capacities and the benefits coming to India, on the other side for a lot of base chemicals the prices have shot up. So I mean even in terms of margins while the topline is healthier I think the margins across the board appears weak. how do we see these intermediates and the base chemicals manufactured from China would the cost pressure intensify or do you think this is the kind of peak or do we see any chances of certain capacities coming down by which the prices might actually soften from here?

Sameer Hiremath: Yes, I think the Chinese situation was behind us. Prices had gone up considerably in the last year. We are seeing some softening in Chinese raw material prices as more and more capacities come back on stream; however, they are not going to go back to the preset 2017 levels, but in our custom manufacturing business all the price increase in raw material are passed on to our customers, so Hikal does not get impacted because of the increase in raw material prices from China or anywhere else, so we are able to pass on 100% of the increase to our customers, so we do not see that as an issue here.

Sudarshan P: I have more questions, but I will join back later.

Moderator: Thank you Sir. We have next question from the line of Parth Desai from Hirzel Capital. Please go ahead.

Parth Desai: Thank you for the opportunity. So what percentage of raw materials do we import from China?

Sameer Hiremath: About 35% to 40%, 35% approximately.

Parth Desai: Got it. If I understand 70% of the business, which is contract manufacturing we pass on all of the increases to our customers and the rest of them is market driven.

Sameer Hiremath: That is correct.

Parth Desai: And then my next question was on the capital work in progress. So I see 115 Crores more or less capital work in progress on the balance sheet. Does this relate to Panoli, Jigani or Mahad?

Sameer Hiremath: That is to our pharmaceutical business and also to some part of crop protection business. It's spread across our various sites.

Parth Desai: Got it. So it is a mix and we have two environmental clearances this year I believe for the Jigani and the Mahad expansion so what if you could just give a brief status on where we are and how much more capex would be required to get these two projects?

Sameer Hiremath: Yes, I think we have got the environmental clearances for all our sites because the next big thing going to happen in Indian chemical industry is environmental compliance and the same thing is happening in China is going to happen in India as well, so I think Hikal is always in above board and maintain very high standards, so all our sites have future-proofed in terms of environmental compliance for the next 5 to 10 years, we have enough capacity from the environmental clearance perspective, based on that, we are putting in place capex plan, which we are putting in about 250 Crores over the next two years, which we will be putting in from the capex.

Parth Desai: Thank you. That is all from my side. I will rejoin the queue. Thanks a lot.

Moderator: Thank you Mr. Desai. The next question from the line of Saravanan Vishwanathan from Unifi Capital. Please go ahead.

Saravanan V: Thanks for taking my question. In terms of, as a sort of guidance you had indicated that you will be able to grow 15% to 20% for the next few years with the current margins intact, but as you had clearly explained that about 70% of your business i.e your material cost is getting pass through, so given that scenario how should we evaluate EBITDA growth, absolute growth in EBITDA would be more realistic to evaluate that instead of the margins?

Sameer Hiremath: Yes, I think that is a correct assessment, absolute EBITDA growth.

Saravanan V: So, would it keep pace with the sales growth or do you expect because of the focus on value added products and also 30% of the business where you have your own products, so given that do you expect EBITDA to grow higher than the sales?

Sameer Hiremath: I think we are more or less in line with the sales growth, there is a plus minus, but it should be in line with the sales growth.

Saravanan V: In terms of capital expenditure and R&D expenditure what can we expect in FY2019 and FY2020?

Sameer Hiremath: The capital expenditure as I mentioned before 250 Crores over next two years, portion of that 100 Crores will be used for infrastructure and 150 Crores will be used for growth capex. In terms of R&D expenditure as a company we spend between 3% to 4% of revenue on R&D and we expect to continue that spending going forward.

Saravanan V: Just one more book keeping question, what will be the effective tax rate going forward because this year we observe that the tax rates have gone up?

Sameer Hiremath: I think the effective tax rate is about 32-33%.

Saravanan V: That is going to continue?

Sameer Hiremath: Yes.

Saravanan V: One question about the history. So in the last 10 years if we observe that I think around 2014-2015 has there been a change in the segments because margins as well as sales especially EBITDA has taken a sort of knock during that time any specific reasons?

Sameer Hiremath: We were forced to find opportunity for some of our products in those years, which as you know there is competition and we have also added lot of people in the organization and we are putting some new strategy, so the margins did come down a bit in the last few years. But I think now we expect the margins to be pretty steady and constant or may be slightly on the increasing trend going forward.

Saravanan V: That is useful. Thanks a lot. All the best.

Moderator: Thank you Sir. We have next question from the line of Devang Mehta from Bay Capital. Please go ahead.

Devang Mehta: Hi Sameer and Anish and Kuldeep. I have couple of questions, first in terms of what are the new products that are coming up both in crop protection and also in our pharma division? As I assume last year also we had launched a couple of herbicide for Japanese company and fungicides and we are also developing biocides and how do we look at particularly biocides because we are hoping that, that particular category would grow very fast?

Sameer Hiremath: Yes, I think the crop protection side we are developing lot more new on patent products for our customers. On the biocide segment we are seeing a lot of growth potential in molecules primarily in the domestic market because lot of products in the biocide segment have been imported from China and there have been shortages coming out of China and we are seeing opportunities and our biocide business will grow based on that. Also on the pharmaceutical side the segment that we are looking at is CNS and the anti-diabetic portfolio where we are launching new molecules.

Devang Mehta: Can I broadly understand what kind of revenue contribution is coming from new products for last two years both in crop protection as well as pharmaceuticals because a lot of focus after a management change two years back both in crop protection and pharmaceutical have led to a lot of new launches, so just trying to understand what kind of growth is coming in from these categories?

Sameer Hiremath: See on the custom manufacturing side when you get a product that is a large part, but if you look at a DMF filings every year it takes a few years for the DMF filings to get commercialized, so typically it takes three to four years to commercialize a product, but we keep on adding 5% more to our new products on the percentage of revenue.

Devang Mehta: Do we have any benchmark as a sort of our currently what percentage coming from new products and where do we aspire to go to, is there any benchmark internally?

Sameer Hiremath: Around 15% to 20% currently that is the current run rate that we have and it is expected to go to about 25% per year going forward.

Devang Mehta: Revenue from new products?

Sameer Hiremath: Yes, they are currently about 15% to 20% depending on the year. If we get a large contract manufacturing product, we are close to 20% or low at 15%, now we expecting to be doing a little higher closer to about 25%, so 20% to 25% is the range that we are looking for a new product year-on-year.

Devang Mehta: Coming back to this biocide, so I presume that our R&D facility in Pune is working on this biocide. So what kind of market opportunity is there and what would we be able to capture over the next couple of years?

Sameer Hiremath: It takes about 2.5 billion dollar market globally. The Indian market is also pretty substantial. I do not have the exact number in front of me but there is a very large opportunity in the biocide segment and it is growing, typically the biocide market grows faster than the GDP of the country.

Devang Mehta: So how easy or difficult is to enter this market?

Sameer Hiremath: Barriers is to entry are high. So unless you have very good chemical and technology expertise, that is not easy to enter that is the reason why there is no senior biocide player in the country they are all coming around China right now.

Devang Mehta: Fine. I have certain book-keeping questions. If I can understand we have restated our receivables, which were in FY2017 annual report I can see as 160 Crores and the current number is showing some 250 odd Crores, so I just wanted to understand what would be a like-to-like number of 160 Crores for FY18 in our receivables?

Kuldeep Jain: Basically, you have to reduce 132 Crores out of that to get the current year number.

Devang Mehta: We are planning a 250 Crores capex , so what would be our targeted net debt over the next two years or most of it will come through internal accruals?

Sameer Hiremath: Less than one. The debt -to-equity ratio will be less than one.

Devang Mehta: So it is less than one,0.7, 0.8 as of now it will continue to remain at that?

Sameer Hiremath: Yes, we have got to maintaining that.

Devang Mehta: Because our cash profits are very high and I thought you would draw down on debt in coming years?

Sameer Hiremath: No, we believe in 50:50 sort of approach, 50% internal 50% capex.

Moderator: We have next question from the line of Chirag Dagli from HDFC Asset Management Company. Please go ahead.

Chirag Dagli: Sir thank you for the opportunity. Sir what is the nature of the unallocated expenses this 24-25 Crores that keeps coming every year, what is the exact nature of this and how should we think about this going forward?

Kuldeep Jain: See typically if you look at segmental standard point of view, what segment says that if you cannot identify certain expenditure allocable to the segment you can put it to unallocation. More so typically we have the CBD office, we have certain expenditure there, so we are allocating on reasonable basis. and there are certain expenditures that remain unallocated in this way, i.e corporate expenditure.

Chirag Dagli: Yes, I understand that so can you be a little more specific as to what is the nature of this 27.5 odd Crores is a fairly large number just you know sort of anymore colour in terms of what exactly?

Kuldeep Jain: I can tell you salary is part of the corporate office, we do not allocate 100% salary to the segment because we keep skill developing, we always believe we will be doing extra businesses, so we will not allocate to the segment, so this is one part of the salaried cost are there, there are certain other expenditure also there, which all not allocated to this. IT expenses are there, which are not allocated to the segment.

Chirag Dagli: Second question is INR a pass through for both crop protection as well as pharma?

Sameer Hiremath: Current fluctuations are protected against that.

Chirag Dagli: So basically the way we should think about your business is earlier you mentioned absolute EBITDA terms, but I think the right way of looking at it is EBITDA in US dollar terms is that understanding right?

Kuldeep Jain: Not really. If you look at all our contracts where the prices are fixed, so we can always say that our EBITDA is fixed in terms of absolute numbers because see you may look at the dollar fluctuation and increase in that so that does not matter to us.

Chirag Dagli: Okay fair point Sir. And Sir last question if I may the annual report talks about you have not developed enzymatic process for pregabalin, is this a significantly large opportunity Sir as we get along in the next 12 to 24 months?

Sameer Hiremath: Yes, I think we got innovation award last year for this enzymatic process and it is a very unique process and we have got own process patents and we believe that we have a very strong cost position plus we are fully backward integrated on this chemistry versus our competitors who buy the advanced intermediates from China.

Chirag Dagli: Sir any colour on how big this opportunity can be?

Sameer Hiremath: I mean typically we look at a product in excess of 50 Crores and it will be a good opportunity, so it will be an excess of 50 Crores.

Chirag Dagli: Thank you so much.

Moderator: Thank you Sir. We have a next question from the line of Sunil Kothari from Unique Investment. Please go ahead.

Sunil Kothari: Sir congratulations for a very good performance. Sir my question is regarding I think what you mentioned in crop protection 20% is contract manufacturing?

Sameer Hiremath: No 70%.

Sunil Kothari: 50% in pharma?

Sameer Hiremath: Yes, that is right.

Sunil Kothari: Sir remaining business seems to be on a spot market I mean market oriented price is it, there is nothing like fixed cost or something. So how we mitigate those volatility in raw material prices because we are depended on Chinese import also. Some thoughts on those things?

Sameer Hiremath: Even in our business on the pharma side, which is 50% generic, we work with some of the large generic companies and in many of those we have annual contracts where we have some linkage with raw material prices and if there is a runaway increase that is what happened last year we could go back to our customers and increase prices. We have that flexibility and also we are backward integrated in many of the raw materials that we do on the generic side, so that the reliance on import has come down, and it will come down more in the coming years.

Sunil Kothari: So dependency on China is reducing that is what you mean to say now?

Sameer Hiremath: Yes, year-on-year aggressively and vigorously looking at reducing our dependency on China. That is our strategy.

Sunil Kothari: And Sir any benefits or may be any negative effect of this currency depreciation or we are not benefited and we are not affected also?

Sameer Hiremath: No, on net-to-net basis, it is a positive benefit from the currency (INR) depreciation.

Sunil Kothari: So there is a scope for improving margin?

Sameer Hiremath: Yes.

Sunil Kothari: Sir last question is this unallocated expenses I just may be repeating, it has gone up from 3 Crores to roughly 12 Crores, any one time exceptional expense is there?

Kuldeep Jain: Yes there is some expenditure, basically the revaluation of the exchange and we have done the ERP upgradation this year, which has gone live from 1st February, so there are some large expenditure, which is sitting in those unallocated expenditure.

Sunil Kothari: Which is a nonrecurring type?

Kuldeep Jain: Yes, absolutely.

Sunil Kothari: Would you like to quantify those numbers?

Kuldeep Jainx: That is not fair on my part.

Sunil Kothari: Thank you very much Sir. Good luck.

Moderator: Thank you Sir. We have next question from the line of Anand Bhavnani from Sameeksha Capital. Please go ahead.

Anand Bhavnani: Thank you for the opportunity. Sir my first question is about our pharma business, historically it has not done as well as agrochemical, so if you can help us understand going forward how do you see return on capital employed in pharma vis-à-vis or agrochemical?

Sameer Hiremath: I think the in the pharma business, the growth will come from new products and the new products will be typically at a higher margin than the current business So we expect the margin profile of the pharma business to improve year-on-year and it will have a corresponding impact on improving our return on capital employed.

Anand Bhavnani: And Sir capacity utilization wise what would be the capacity utilization in pharma and agrochemical respectively?

Sameer Hiremath: Both our businesses are about 70% right now, so we are pretty comfortable for the next one, one-and-a-half years in terms of current capacity.

Anand Bhavnani: Sir the expansion you mentioned early in the call how much of it is for backward integration vis-à-vis capacity expansion for a kind of existing products?

Sameer Hiremath: I think it is a combination, I do not have the specifics here, but it is a combination of both.

Anand Bhavnani: I shall come back in the queue for additional questions.

Moderator: Thank you Sir. We have a next question from the line of Atul Thakkar from Dharamshi Securities. Please go ahead.

Atul Thakkar: My question has been answered, thank you.

Moderator: Thank you Sir. We have a next question from the line of Apurva Mehta from KSA Shares & Securities. Please go ahead.

Apurva Mehta: Sir congrats on good set of numbers. Sir just wanted to ask the growth, which we have around 22%, 26% to 28% is it because of volume growth or because the hike in raw material prices value growth was, what will we quantify, what will be our volume growth?

Sameer Hiremath: It is a combination of the two, volume and value.

Apurva Mehta: It would be more towards the value of raw material has gone up and that is why the growth is there, on the normalized basis it would be 20% growth we can envisage that?

Anish Swadi: See our growth as we have indicated it is going to be between 15% and 20% year-on-year over the next three years, so it is not going to be 26% to 28% as you had made in your earlier comments.

Apurva Mehta: And Sir on the tax rate just wanted to get clarification because last year we had a tax rate of 23% and this year it is 40% so any one off thing or it was like for past any taxes were there, what was there because today this quarter it was very high of 47%?

Kuldeep Jain: Yes, see what had happened you know this 35 IIAB section this is R&D benefit it was earlier 200% has gone down to 150% now and earlier we were getting some 15% on investment that is investment allowance, investment on plant and machinery, which is also not available this year, so these two are the big factors.

Apurva Mehta: But still Sir 40% is there I could not understand because it would be around 33% or something?

Kuldeep Jain: If you look at our effective tax rate for the entire year it is 32% against 22% last year.

Apurva Mehta: But here we have paid around 44.73 Crores deferred tax is different?

Kuldeep Jain: Yes, you have to take deferred tax also into account, so our effective tax rate both together is 32% against 22% last year.

Apurva Mehta: So we do not have any MAT credit now?

Kuldeep Jain: We have still got MAT credit so in fact if you look at from the cash flow point of view we will not pay 43 Crores, we have paid Rs.26 Crores. The balance has been utilized from the MAT credit, we still have the MAT credit available with us.

Apurva Mehta: While in the tax we have not bifurcated that thing. We have shown as the tax payment so we have not showed any MAT credit?

Kuldeep Jain: No basically there is no MAT credit this year, we have utilized MAT credit, if you look at last year results it is shown three numbers.

Apurva Mehta: So next year the effective rate would be around?

Kuldeep Jain: 32%.

Apurva Mehta: Thanks a lot.

Moderator: We have next question from the line of Ashish Thakkar from Motilal Oswal Asset Management Company. Please go ahead.

Ashish Thakkar: Thanks for the opportunity. Sir on your DMF filings you said you are going to file more DMFs, so these are largely the generic that the products, which are going off patent and you feel there are lot of opportunities wherein you can cash on, these are the general thinking or this is something, which is coming directly from the clients?

Sameer Hiremath: It is a combination. One of our existing clients are also asking us to look at some of the product for lifecycle management with the bid pharma companies and then also looking at our own strategy of finding our own products, which will get launched in the next three-four years.

Ashish Thakkar: So, would it be safe to assume the request is coming also from the Indian companies?

Sameer Hiremath: Yes, very much.

Ashish Thakkar: And what are the number of filings that you are targeting the DMF funds?

Sameer Hiremath: About four to five per year that is what we feel comfortable with.

Ashish Thakkar: And what as per your assessment would be the typical approval timelines?

Sameer Hiremath: Well, we typically file a DMF three to four years before launch and after we file it takes two to three years to the approval by the time we start our sales

Ashish Thakkar: Fair enough. Sir if you can throw some more colour on your clinical pipeline as to, I do not know if you are comfortable sharing this about your phase II and phase III pipeline broadly if you could help us with how many number of molecules are there in the phase II probably early phase III or late phase III?

Sameer Hiremath: On the breakup we have got four or five molecule between phase II and phase III and about two products going into phase III right now.

Ashish Thakkar: So nothing in the late phase III?

Sameer Hiremath: One in late phase III but mostly we move ahead soon.

Ashish Thakkar: Thanks a lot Sir and all the best.

Moderator: Thank you Sir. We have a next question from the line of Rajesh Kothari from ALFAccurate Advisors. Please go ahead.

Rajesh Kothari: Good afternoon Sir, my first question is generally in CRAMS business, it is very volatile business because if you get one successful click then the tonnage and the volume growth are significant and here you are talking about 15% to 20% kind of a compounded growth, so is it assuming without any one off big success or how it is?

Sameer Hiremath: Yes, one off success we cannot predict and we cannot build that to our projections. It's more about our current business and what we have in the pipeline.

Rajesh Kothari: And this 15% to 20% business growth what you are saying is across both the segments or is it by one of the segment, which is going to grow higher than the other?

Sameer Hiremath: It could be a little bit up and down on year-to-year basis, but if you look at a three-year horizon I think it will be 15% to 20% upwards both the businesses.

Rajesh Kothari: And within both the business the revenue mix is also going to be generally same across or your generics may do better thanCRAMS?

Sameer Hiremath: The objective is kind of 50:50 type of approach. I am trying to maintain that. May be one year could be up and down 5% to 10%, but we will try and maintain 50%:50%.

Rajesh Kothari: In terms of you say there is some one off expenditure in FY18. How much you say what is the quantification of this number?

Kuldeep Jain: 3.5 Crores that is it.

Rajesh Kothari: And this 3.5 Crores is in Q4 or for the full year spread out?

Kuldeep Jain: Q4.

Rajesh Kothari: And you said that the agrochemical industry is showing some signs of revival, but if I hear you know conference call from many other global and local companies, they are still kind of very muted recoveries they are talking about they are saying the industry is still not out of goods and you know recovery is probably is only hope, it is not yet started, so can you give some colour on that?

Sameer Hiremath: Whatever we do in 2018 will be put into the channels in 2019, so 2018 it will be modest, but they are pretty confident that 2019 be a better year. Whatever we produced and sent this year will go into the channels for 2019. We are seeing growth opportunities.

Rajesh Kothari: Great Sir. Thank you very much.

Moderator: Thank you Sir. We have a next question from the line of Varun Daga from Girik Capital. Please go ahead.

Varun Daga: Most of my questions are answered. I just have one question if you could give us the breakup in terms of seasonality. I just wanted to understand is there any seasonality between quarters in first half better than the second half, Could you give us some light on that?

Sameer Hiremath: Typically, in our business, the first half is lower than the second half, that is a nature of our business because in the first half of the year we have our annual maintenance shutdown and lot of sales start taking place over the second half of the year that is the nature of our business.

Varun Daga: In terms of percentage if you could give a rough breakup it will be helpful?

Sameer Hiremath: I think historically the numbers are about 40-60, 40% first half and 60% second half.

Varun Daga: That is it from my side. Thank you so much.

Moderator: The next question from the line of Amar Maurya from Emkay Global. Please go ahead.

Amar Maurya: Congratulations for a very good set of numbers. Sir I have a question primarily related to, if I see your business model today, it is primarily more of a linear business model where you invest your fixed asset and then the topline grows, so that is a reason your sweat asset ratio is always either one or 0.9 times, but typically if I look a normal grams business where a sweat asset ratio can go I mean go up than one time. Is it possible now given that you are at a phase where you have seeing a penetration in your existing client base can we see your sweat asset ratio going up from here from 1 to say 1.5-1.7 times?

Sameer Hiremath: Yes, I think for the new products asset turnover ratio will be higher so that it is 1.5 to 1.75 ratio and the new products will come in from FY2019-FY2020 onwards. Also because of our brown field expansion, our turnover ratios will improve.

Amar Maurya: Why it is happening it is all happening because of the nature of the product or you are going to leverage few of your existing facilities and something like that?

Sameer Hiremath: We are not going to build any new sites our sites have existing space to expand. Most of the infrastructure is being built, our waste water treatment plant or the warehousing, the land already exists, all that is already done, so we just have to put the plant building and some utility expansion may be, it is a brown field project, the asset turnover ratio will be far better for the newer projects.

Amar Maurya: Got that Sir and if I see your existing site all across, how much is the unutilized portion I mean is there a scope to expand let us say 40%-45% in each of your sites?

Sameer Hiremath: Yes, in two out of our four sites we have 50% expansion phase capabilities, the other sites are about 15% to 20% in two of our sites, but the two big sites, the bigger sites is in Panoli in Bengaluru we can expand about 50% to 60% expansion space.

Amar Maurya: And if Sir one last, let us say if you see all your plant site if they are fully utilized, at what sweat asset ratio we can see from the current level?

Sameer Hiremath: About 1.2 to 1.3 should be the combined sweat asset ratio.

Amar Maurya: All across?

Sameer Hiremath: Yes.

Amar Maurya: Thank you Sir. That is all.

Moderator: We have a next question from the line of Chirag Dagli from HDFC AMC. Please go ahead.

Chirag Dagli: Thank you for the follow-on. This R&D spend can you split between the two businesses crop protection and pharmaceutical?

Sameer Hiremath: It is a centralized R&D. i\It is very difficult to set this trend, but it is more or less in line with the revenue and the opportunity, depending on the opportunity it is flexible in line with the revenue of the business.

Chirag Dagli: Sir 3% to 4% is even across both the segments?

Sameer Hiremath: Yes.

Chirag Dagli: And this capex 250 Crores that you are going to do over the next two years is this largely going to be on pharma or crop protection?

Sameer Hiremath: It will be on both. We are seeing opportunities in both the businesses.

Chirag Dagli: In terms of working capital as we go along in the past working capital has been fairly efficient, do you see any change in this working capital efficiencies for the business as a whole as mix changes or anything else that is happening within the business?

Kuldeep Jain: Yes, certainly there will be some impact because of the increase in the turnover, but the GST has really impacted us and probably to all the industries, so let us see that how the GST rolls out quickly .**Chirag Dagli:** And just one last question Sir, on the custom synthesis piece for the crop protection business in your opening remarks you mentioned you have about 10 to 11 products in custom synthesis for crop protection. What was this number say three or four years back Sir?

Sameer Hiremath: It was less than half.

Chirag Dagli: Thank you.

Moderator: Thank you Sir. Ladies and gentlemen due to time constraint we will take the last two questions. We have next question from the line of Sanjay Ladha from Profit Value Fund. Please go ahead.

Sanjay Ladha: Thank you for the opportunity Sir. My first question is who are the major competitors for us and what is our competitive advantage and what rate industry is growing Sir?

Kuldeep Jain: Could you repeat that I could not hear you.

Sanjay Ladha: Who are the major competitors for us and what is our competitive advantages vis-à-vis our competitors and at what rate industry is growing?

Sameer Hiremath: I think for the crop side definitely if you look at India the PI Industries is a competitor, globally there is Saltigo and Lonza. On the pharma side there is Divis as a competitor and Dishman Carbogen Amcis is a competitor and globally Siegfried and Lonza are competitors, but we are a hybrid model, so we have fewer competitors on hybrid side, but the segment wise we have three or four major competitors in each segment.

Sanjay Ladha: Can I know what is our competitive advantage, how we are different from them and what are strategies different from them?

Sameer Hiremath: I think the technology, chemistry, sustainability, environmental compliance, quality standards, track record, backward integration and we are the only company in the country today that has the hybrid business model of our scale. We can backward integrate and that is the expertise that we have. And USFDA clean track record, that all add to our competitive advantage.

Sanjay Ladha: And at what rate the industry will be growing?

Sameer Hiremath: Well, the industry on the pharma space goes at about 3% to 4%, crop growth about 2% to 3% globally, but for our space we do not have the numbers, but I think 8% to 10% is type of growth of outsourcing business can grow at globally and we could grab the larger percentage of thatpie.

Moderator: Ladies and gentlemen we will take the last question. The last question is from the line of Miloni Bagadia from IDFC Securities. Please go ahead.

Nitin: This is Nitin from IDFC Sir. Quickly Sir on when you look at the growth opportunities for the two segments, qualitatively is there difference in the kind of nature of the business that you are looking at. For example there is more of a CRAMS, which is there in agrochemical, and pharma versus the innovative CRAMS, what is the kind of opportunity you see on the pharma side for growth over the next two to three years?

Sameer Hiremath: I think historically our business has been more on the CRAMS side if you look back historically, but the pharma side the short term opportunities I would say over the next two to three years would be more on the generic side and some custom synthesis opportunities, but the larger opportunities will be more on the generic side right now.

Nitin: That is what comprise of the comment you made earlier in terms of filing DMFs and sort of scaling those DMFs for innovators as well as for the generic?

Sameer Hiremath: That is correct.

Nitin: And Sir and obviously the opportunity that you see for the next two to three years would be on product that you have already got approvals for or close to getting approvals for?

Sameer Hiremath: No, in two to three years we have already got approvals once we get approvals will be beyond that.

Nitin: Are there any specific products that you are excited about over the next two to three years, which can be meaningful from a growth perspective for which you already got approvals for?

Sameer Hiremath: Pregabalin is one product that we believe from FY2019-2020 will could be one good product for us, we are pretty excited about that.

Nitin: And Sir any particular reason why the custom synthesis, which has been like a larger component of your agrochemical business that has been a big constituent of your pharma business also?

Sameer Hiremath: Unfortunately in the last couple of years, because of the FDA landscaping in India, many of the companies have been painted with the same brush, so there is a shift to move away from India and outsourcing of custom synthesis, but it is coming back. I think you will start seeing that companies now already have got their act together in western innovator companies are now starting to look again at India.

Nitin: And Sir just squeeze one last one on that in the custom synthesis, whatever discussion that you are having on the pharma side are your discussions more around close to patent expiry products or even early stage products?

Sameer Hiremath: No I think it is combination of both, and the clinical development as well and a few on patent, lifecycle management.

Nitin: Thank you and best of luck.

Anish Swadi: Great. Thank you everybody. I will take this opportunity to thank everybody for joining the call. I hope we have been able to address all of your queries. For any further information kindly get in touch with SGA- Strategic Growth Advisors, our investor relation advisors and thank you once again and have a great day.

Moderator: Thank you very much Sir. Ladies and gentlemen, on behalf of Hikal Limited, that concludes this conference call. Thanks for joining with us. You may now disconnect your lines.