June 9, 2022

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

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

Dear Sir/Madam,

Subject: Transcript of Earnings call for quarter and financial year ended March 31, 2022

In continuation of our letters dated May 31, 2022 and June 3, 2022 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 June 3, 2022 for your information and records.

Kindly take the information on record.

Thanking you,

Yours Sincerely,
for **HIKAL LIMITED**

HIKAL LIMITED

Rajasekhar Reddy
Company Secretary & Compliance Officer

Encl.: As above

"Hikal Limited Q4FY22 Earnings Conference Call"

June 03, 2022

Disclaimer: E&OE. This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 3rd June 2022 will prevail.

MANAGEMENT: **MR. ANISH SWADI – SENIOR PRESIDENT, BUSINESS TRANSFORMATION, HIKAL LIMITED.**
MR. KULDEEP JAIN – CHIEF FINANCIAL OFFICER, HIKAL LIMITED.
MR. MANOJ MEHROTRA – PRESIDENT, PHARMACEUTICAL BUSINESS, HIKAL LIMITED
MR. VIMAL KULSHRESTHA – PRESIDENT, CROP PROTECTION BUSINESS, HIKAL LIMITED
MR. VINAY BALIGA – VICE PRESIDENT- CORPORATE FINANCE, HIKAL LIMITED.

Moderator: Ladies and gentlemen, good day and welcome to the Hikal Limited, Q4FY22 Earnings Conference Call.

This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Anish Swadi – Senior President, Business Transformation. Thank you. And over to you, Sir.

Anish Swadi: Ladies and gentlemen, a very good afternoon to all of you and thank you very much for joining us today for our Q4 2022 FY Earnings Call. I am Anish Swadi - Senior President of Business Transformation and Head of the Management Committee. With me, I have Mr. Kuldeep Jain – our Chief Financial Officer, Mr. Manoj Mehrotra – our President, Pharmaceuticals Business, Mr. Vimal Kulshrestha – our President, Crop Protection Business and Strategic Growth Advisors, our Investor Relations advisors.

We hope you and your family members are safe and healthy. I am pleased to interact with all of you on our Q4 FY22 Earnings Call. I hope you have gone through our Earnings Release Presentation and Financial Results for the quarter. You can find these on the stock exchanges and on our website too.

I would like to start this call with an update on the unfortunate incident which occurred at Sachin, GIDC Surat, on 6th January 2022. Allegations were made that the tanker involved was carrying a byproduct which allegedly came from Hikal's Taloja factory, we would like to reiterate the fact that the tanker reported as allegedly disposing chemicals into the stream, was not the same tanker that left the company's premises in Taloja. The company has provided all documentary evidence to this effect. All relevant employees of Hikal have voluntarily cooperated in the ongoing investigation. Since then, there has been a judicial recognition of the non-existent role of Hikal and its employees in the entire incident, as elucidated by the Hon'ble Gujarat High Court in its order. As on date, none of the Hikal employees are in judicial custody, and all have resumed work. This matter is still subjudice. And as things stand, Hikal is in a very strong legal position.

As a result of the Sachin, GIDC incident, the MPCB had also given a closure notice to the Taloja factory. We have provided all the relevant documents to MPCB and we are taking appropriate measures under the course of law to remedy the situation swiftly. We are confident of resolving the issue on the closure notice at the earliest having filed a writ petition to that effect, which will be heard in the coming week, once the regular bench convenes.

Upon reopening the plant, we will begin executing the pending order book, which has been built up over the course of this quarter, despite these testing times, and only further illustrates the fact that our order book is strong. However, owing to the nature of the business, we will have to gradually ramp up the scale of operations, which could have some short-term impact on our crop protection business.

We have been transparent about the matter and have actively communicated with all our internal and external stakeholders including customers. We appreciate the fact that they have continued to demonstrate high level of confidence in our company.

In order to ensure such an unfortunate incident does not repeat in the future we are taking stringent and proactive steps towards further strengthening our compliance policies and standard operating procedures. We have already on-boarded a reputed audit firm Mahajan & Aibara for our internal audit. We have also partnered with a reputed ESG firm and initiated focused third-party audits for our entire plant network to identify and fill in gaps for further areas of improvement. We are also working closely with our customers to ensure a best-in-class operating model.

Now I would like to just give you an overview of our FY22 performance. From a market perspective, we all know the latter half of FY22 has been extremely challenging for the Life Sciences industry, especially due to the uncertainty arising from Ukraine-Russia War, geopolitical tensions and the reemergence of COVID cases in China. This has led to significant headwinds in the availability and pricing of key raw materials and solvents.

Also the huge rise in crude oil prices have significantly impacted freight as well as logistics costs. Despite multiple challenges and disruptions, Hikal has been able to maintain, to a large extent supply continuity and fulfilled a large majority of its customer commitments. The agility shown by Hikal team in such a challenging scenario has been very positive.

From a financial update perspective for the year ended FY22 Hikal has achieved a consolidated total revenue of Rs. 1,943 crores for the year, witnessing a total growth of 13% over the previous year. Profit before Tax was Rs. 341 crores, a growth of 5%. Our EBITDA margin for the year came in at 17.6%.

Hikal was witnessing robust growth from Q1 to Q3 of FY22 with 21% growth for the nine months FY21 versus FY22 with a 19.6% EBITDA margin versus 18% in the corresponding year prior to that. This was on the back of industry tailwinds with supply chain management and strong business growth across both our segments. However, the global slowdown in the generics business due to channel inventory and lower demand off take, led to muted growth in the last quarter. Also, a lag in passing on increased prices, supply chain disruption and significant rise in input costs affected our business further.

Balance Sheet and Return Ratios: In addition to growing the top line and bottom line, we have also been making focused efforts to strengthen our balance sheet and to improve the return ratios of the Company. As a result, our debt-to-equity ratio now stands at 0.59x as compared to 0.61x times at the end of the previous financial year, and 0.73x times in the year before that. We have also negotiated with our bankers to bring down our average borrowing costs from 6.99% in March 2021 to a blended rate of 6.15% in March 2022.

Our return on equity has also improved to 16.2% in FY22 from 15.2% in FY21 and 10.7% in the year preceding that. These numbers indicate a healthy condition of our business considering the nature of operations along with the ongoing and planned capacity expansions.

On the dividend, the Company has declared a final dividend of 20% or 40 paisa. And the total dividend for FY22 is 80% or Rs. 1.60 paisa.

Now, I would like to hand over to our President Pharmaceuticals Mr. Manoj Mehrotra to take us through the performance of the Pharmaceuticals Division.

Manoj Mehrotra: Thank you Anish and good afternoon, ladies and gentlemen. On the financial side, the pharma business has experienced a muted revenue growth of 6.6% with Rs. 1,130 crore total revenue in FY22, versus Rs. 1,060 crore in FY21. The EBIT of the division was at Rs. 151 crore at 13.4% margin in FY22. This muted trend was primarily due to (1) Overstocking with customers (2) Pass through underway (3) Rise in input costs of raw materials, solvents, utility and freight cost. On price pass-through, we are in discussion with customers, the impact of which we will see in the upcoming fiscal year.

Now as we all know, we have two verticals within the pharma business, API and CDMO. On the API business over the year we have added several new customers and strengthened presence in new geographies, like Latin America and Japan. Our new product launches in anti-diabetic have been witnessing increased traction from customers. We have ten plus products in development pipeline and are planning to launch four to five products in FY23.

On CDMO side, our CDMO business has witnessed increased traction with 20% increase in overall inquiries, with increase in win rate as well. We have converted two opportunities this year, two KSM's for new drugs with global innovator, and one intermediate opportunity with another innovator. Several customers have done plant visits in FY22. Our future pipeline for CDMO business remains robust with working going on in multiple upcoming opportunities.

On the Animal Health side, our Animal Health business continued to witness growth on back of existing relationship with majority of key AH (Animal Health) companies. We have also commenced process development work for several active ingredients which are part of the multiyear Animal Health project with a global innovator. We plan to finish the commissioning of plant by FY23 and start revenue accrual from FY24.

While our business pipeline continues to be strong, we have also undertaken multiple initiatives to improve our margins. To ensure right raw material availability and pricing of our key RMs, we are working on (1) Strategic vendor relationship with long-term contracts (2) De-risking supply chain from China and (3) Backward integration.

In addition to this, we are working on multiple manufacturing excellence or cost improvement programs to improve yield and solvent recovery for our key products. With all these initiatives, we foresee future pressures to persist in FY23. Q1 we will face more pressure followed by a gradual uptick starting in Q2 FY23.

With that I invite our President of Crop Protection business, Vimal Kulshrestha.

Vimal Kulshrestha: Thank you Manoj. Good afternoon, all participants in the Earnings Call. The Crop Business has recorded revenue growth of 23% year-on-year basis with Rs. 813 crore total revenue in FY22 versus Rs. 661 crore in FY21. The EBIT of division was at Rs. 116 crore at 14.3% margin in FY22. The revenue growth was mainly achieved on the back of higher demand from our leading CDMO customers, new contracts with key U.S. and Japanese customers. Sale of our own products slowed down due to raw material availability issues.

In Crop Business, we have two business vertical, in own products, demand from our existing product remains intact from our key customers. We are also planning to complete the plant commissioning of our new fungicide by end of 3rd Quarter of current calendar year and to start revenue by end of FY23. We are planning to launch one more fungicide with the combined potential of Rs. 400 crore to Rs. 500 crore. We will also continue to explore new product opportunities in the business and five to six products are under development as well.

In CDMO business, our CDMO business continues to receive inquiries from all new customers. Several new customers have done plant visits in FY22. We are increasing efforts to build and strengthen relationships with our U.S. and Japanese customers.

To ensure a stable availability and pricing of key raw materials, we are working on developing a strategic vendor relationship with long term contracts and de-risking supply chain from China. We are also planning to initiate Manufacturing Excellence programs to lower production cost and improve margins.

Now I hand over to Anish for future outlook.

Anish Swadi: Great, thank you Vimal and Manoj. Since our business heads have now talked about the respective businesses, I would like to take you through some of our other key priorities we are working on as part of Project Pinnacle. As you already know, we are undergoing a transformation of our business from “Good to Great”, while continuing to drive profitable growth. We have also on-boarded a global consultant to help us identify the right strategic direction for choosing the suitable products, partners, technologies for the future, while bolstering our R&D and manufacturing capabilities.

One of the key focus areas for this financial year will be compliance. As I have mentioned earlier in my address as well, we are taking stringent steps towards strengthening our compliance policies, de-risking and separating the operating model of both our businesses, stricter vendor due-diligences and revamp of vendor contracts, third party audits of all our plants and process improvements to enhance checks and balances. We are making every effort and endeavor to ensure the company is not involved in any such incident ever again.

Cost Improvements: We are taking targeted actions to ensure our bottom-line improvement by price pass-through on long term contracts, Manufacturing Excellence programs which is cost improvement programs for priority products to improve yield and solvent recoveries, strategic vendor relationships for key raw materials, backward integration and a shift to renewable energy and biomass.

Customers: Customer centricity remains key for Hikal. We will continue to fulfill our commitments and deliver best-in-class quality products. Our continued focus will be to increase share with existing customers while adding new customers and strengthening presence in newer geographies such as Latin America and Japan.

Capacity utilization and expansion: We are working on improving our asset utilization with a clear focus on reduction in cycle time and changeover times. We will continue to selectively invest in growth opportunities for the businesses to ensure that we are investing in right opportunities offering long term returns to the business.

In terms of outlook for next year, we expect FY23 to be a year of necessary slowdown and consolidation to prepare us for future accelerated growth. We expect market headwinds to continue, but we are confident that the strong measures taken will help us navigate these turbulent situations.

Pressure in Q1 will remain high, higher than that of Q4. But we are confident of improving quarter-on-quarter starting Q2. The growth trajectory along with new opportunities, strong customer relationships and new technologies will catalyze the future of our business towards our bold aspirations.

Finally, we are a company that has been in business for over 34 years. We have faced multiple headwinds and been through several ups and downs in our journey. However, we have always navigated through these tough times without compromising on our core values and ethics.

Our business has been and continues to be built on long term relationships. The past six months has been challenging. However, I am confident that as we come out of this, we will be a more nimble, flexible and resilient company.

We are eternally grateful to all our colleagues who have risen to the occasion and all our stakeholders who have supported us during these difficult times. While the short to medium term outlook is cloudy, the longer-term growth and profitability story is very much intact.

Thank you all for your time and support. With this, we will now open the floor to questions and answers. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press "*" then "1" on their touchtone telephone. If you wish to remove yourself from the question que you may press "*" then "2". The first question is from the line of Rahul Jain from Credence Wealth. Please go ahead.

Rahul Jain: So, just to understand; so on last call, we remember the commentary with regards to the growth and demand outlook was quite buoyant. At the same time, the commentary with regards to input costs was bearish. And you had mentioned it takes some time to pass on the cost to the consumers. So, just to understand on the growth part, and the demand side and the sales revenue part, what has changed in last, say two, three months, whereby our commentary has changed from a strong demand outlook or buoyant demand outlook to something where you seem to be more cautious or talking about the next year being a very challenging year.

Anish Swadi: Sure. What I would do is hand this over to you Vimal to answer for the Crop Protection and then Manoj can talk about the Pharma division.

Vimal Kulshrestha: So, demand is strong, we are getting customer inquiries, and we are confident that we will continue to get inquiries in our CDMO space and own products also. The challenge has been in Q4 for supply chain. So, there were a lot of supply chain disruptions, you know, after this Russia and Ukraine war, crude has gone up sharply, energy has almost become double, raw material prices have increased almost 40% to 60%, solvent prices have increased. So, that is what has created the issue. One is raw material availability and second on the pricing issues, which has put pressure on the margins. We expect a lag in passing the cost impact in the price. And we are confident that from Q2 we will be able to pass on this in the prices. Over to Manoj for Pharma.

Manoj Mehrotra: Yes, so I will address this question in two parts. Number one is on the demand side. So, demand since we have two distinct segments. On the CDMO side, we are seeing increasing demand with more number of inquiries coming, more number of customers willing to work with Hikal. But as we know that on the CDMO side, the demand takes some time to ramp up. But we are seeing very positive signals from our customers on the demand side on CDMO.

On the API side, since our raw material costs have gone up and we have been in discussions with various customers for increase in selling prices. And that actually subdued the demand in the short term because everybody wants to kind of go back or liquidate the inventory first. So, there definitely is short-term impact. And since we are in B2B business, it takes some time for customers to take suitable decisions as well. And we would also not like to really sell at very low prices and build up inventory at customers' end. So, it's better to be a little slow and steady and make sure that the cost is passed on over a period of time. But that usually, it takes around two to three quarters, I will say. And we want to retain all our existing customers because in the long run, it is the same customers who will give us the margins.

On the CDMO side, although we have contracts for pass-through costs, but they always have a lag effect because we can't do month-by-month pass-through costs. There is always either a three month or six-month window where the customers discuss, it's mostly six months and it takes some time for us to pass-through.

Also, the energy costs have been just shooting through the roof and not showing any respite, whether it is the fuel, whether it is coal, whether it is biomass briquettes and that is causing a lot of pressure. So, overall, the cost side there is pressure. It will take, I will say Q2 onwards you will definitely see better margins from the pharma business. But long-term demand remains good, all our products and relationships with customers stand steady.

We will continue to add new customers on CDMO side as well as on the generic API side.

Rahul Jain: So, just to further this question see our margins on the pharma side are already below the average is for last three quarters. And this quarter we have had probably the worst margins on the pharma side and both agro sides. So, do we expect for this to continue say for another quarter? And Quarter 2 onwards, will we see a sharp improvement or a gradual improvement? And when do we expect to get back to our normal margins?

Anish Swadi: I will just answer on the overall perspective of the Company. I think it's very difficult for us to give guidance in terms of margin at this period of time, because things are very uncertain and things are very fluid. I think, Q1 overall for the company as we look at it will certainly be more subdued than Q4. But as Manoj and Vimal have both mentioned, on Q2 onwards, you will start seeing an improvement going forward. So, it will be a stepwise approach, Q1 will probably bottom out and then you will have an improvement in Q2 and then you will see an increase in Q3 and Q4 going forward.

As to when you will see us get back to it, we are hopeful that you know next financial year, you will see us getting back to it. But there are a lot of external circumstances that are beyond our control. And we do expect and we are hopeful that it will solve themselves in a short amount of period. So, that's why it's a little, we are a little cautious in terms of giving guidance at this period of time.

Manoj Mehrotra: So, I agree with Anish, that the Q1 will see bottoming out of the margin, Q2 onwards the uptick will start, now how long will it take to reach the previous margins is a little difficult to forecast at this stage because we all know that supply chains across the world are very much disrupted. And on top of it this energy costs have really put a pressure on our costs.

Rahul Jain: And secondly on the growth part, as far as our topline is concerned, are we more confident on the topline compared to the margin given also, Anish, that we have done as per the results, the capitalization is roughly around Rs. 170 crores to Rs. 180 crores, in terms of the fixed assets addition, but at the same time, in terms of the cash flow amount being spent, we have almost spent roughly around Rs. 150 crores each in the two years FY20 and FY21 and further about Rs 270 crores in FY22. So, just to understand when do we see the benefits of CAPEX kicking in, and thereby the topline growth being much better?

Anish Swadi: So, again, reiterating the point of guidance, at this point in time, it's a little challenging for us to give you both revenue guidance and margin guidance, but certainly the assets that we have put on ground or the CAPEX that we have, we are finishing off the CAPEX, whatever is pending we are finishing off because they are mostly backed by contracts and/or products that we have in the pipeline. But given the current situation that we have with the raw material and input costs, it's very challenging to say that when we are going to start the operations of those plants for production. But we are hopeful as both of the business heads have indicated that Q2 onwards, at the end of Q2 onwards, we will see a resurrection in terms of the business and you will start to see that growth and profitability come through.

Rahul Jain: And just the last thing, the CAPEX capitalization so, if you could, what amount of CAPEX do we expect in the current year and what amount of capitalization do we expect in the current year on the CAPEX side?

Kuldeep Jain: Yes, sure. I will take this question. See we are expecting Rs. 250 crore to Rs. 275 crore cashflow for this year. And the capitalization will be close to Rs. 400 crore in the current financial year.

Rahul Jain: Okay, so that means, if I just take two years, FY22 and FY23, the total capitalization will be roughly about Rs. 560 crores to Rs. 580 crores, is that correct?

Kuldeep Jain: Rs. 600 crores almost.

Rahul Jain: And then, in terms of the asset turn, how do we look at this CAPEX asset turn for FY24 and FY25?

Kuldeep Jain: Yes, typically, as we mentioned earlier, in case of pharma business, it takes typically 18 months to 24 months to put it to commercialization. And in case of the crop protection, it takes typically six to nine months, after completion of the projects.

Rahul Jain: What is the CAPEX schedule in terms of the commercial being started in this year?

Vimal Kulshrestha: So, for the crop CAPEX, we expect to commission in Q3 FY23 and we expect accrual of revenue from Q4 or end of the year of FY23.

Moderator: Thank you. The next question is from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta: So, taking forward this question on CAPEX Rs. 600 crore will be capitalized in FY23. So, one thing I wanted to understand, Anish let's forget about FY23, we do understand the kind of challenges we are facing, but let's say over FY25, this Rs. 600 crore CAPEX being coming in and being streamlined, and given let's say one, one and a half years of streamlining, do we think that this Rs. 600 crores CAPEX can give us additional Rs. 1,000 crores kind of revenue and reach our topline of say around Rs. 3,000 crores by FY25? I am not even talking about FY23, but I am talking about FY25.

Anish Swadi: Yes, so, I mean very valid question. I mean, I think by FY24, FY25, we definitely expect us to be operating somewhere near close to peak levels. As we have indicated in the past, peak levels are about 1.5 times, right. So, to answer your question whatever we have coming on stream now, we expect to deliver revenues worth 1.5x of what we have to be in the ground.

Ankit Gupta: So, we can at least touch around Rs. 3,000 crore revenue by FY25?

Anish Swadi: Yes, that should be possible.

Ankit Gupta: And also on the kind of commentaries you guys have given earlier. Of course, we do understand that first half of next year will be challenging. But on the margin side, let's say when you touch Rs. 3,000 crore revenue, what kind of margin improvement do we see in our base margins of around 19% to 20% that we have been reporting over the past year or two, from there, what kind of margin can we see in FY25, when we hit peak revenue and hopefully all these headwinds that we are facing currently are also behind us.

Anish Swadi: So, look, when we look at the future margins of the business, I mean, look up to the nine months ended, this financial or last financial year, we were at a very healthy run rate, right, as you could see from 19%. So, we were actually a little ahead of what our targets were. And had we continued or had we had not external challenges like the current environment, we would have certainly delivered on our growth and exceeded it.

I think if we look at the longer-term vision, we certainly see about 20% margins from where we are, and renew our consolidated growth, as we have indicated in the past. The current situation, given where we are with the external challenges that we have, it's very difficult to tell. But the long-term picture, the long-term horizon for both businesses are very much intact, we are very positive about it, which is why we are still investing in it. And most of the investments are going backed on the basis of our customer commitments.

Ankit Gupta: Sure, because earlier you have always guided over the past year or two, that will be at least 1% to 1.5% kind of margin improvement as compared to our based margin to 19% to 20%, over the next few years. So, let's forget about FY23. But let's say from FY24 onwards, can we start seeing that improvement from our base levels of 19% to 20% in FY24 and FY25 every year?

Anish Swadi: Yes, we should. And I had always indicated 50 to a 100 basis points on an annual basis. But yes, we should. And that's what we are working towards, yes, absolutely.

Ankit Gupta: And on the CAPEX side, given the kind of headwinds that we are facing currently, what are our CAPEX plan for FY23 and FY24?

Anish Swadi: So, right now for FY24, we haven't gotten any CAPEX, because it all depends on where we are today, but as Kuldeep, our CFO, had mentioned, is that we are completing all the CAPEX that we had backed by the customer contracts that we had initiated last year on the crop side for the crop division. And for the pharma division, we have the Animal Health CAPEX that we are undertaking this year, and a slight expansion in R&D based on the inquiries or the number of inquiries we have had, and that we need to cater to. So, we have to invest in that. So, we expect that, it's only CAPEX that we need to do, obviously, it's focusing on what's 'absolutely necessary' at that time, and what's backed by customer commitments. What's 'good-to-have' is something that we are, at this point in time, deferring probably till the second half of this financial year.

Ankit Gupta: How much will that amount be for FY23? How much CAPEX is still left, you know where we have commitment from customers or commitment from companies?

Anish Swadi: Yes, so about Rs. 250 crores to Rs. 270 crores as Kuldeep, our CFO had mentioned.

Ankit Gupta: And last question on the pharma side, FY19, we ended pharma, with revenues of around Rs. 940 crores, Rs. 939 crores or Rs. 940 crores, and this year, we are ending with Rs. 1,130 crores. So, it's a single digit kind of revenue growth that we have seen over the past three years in Pharma. So, if you can highlight about, what kind of challenges we have faced on the Pharma side, despite most of the API companies running in a moollah or in past year or two. So, what has been the reason of such slow growth in Pharma side? And leave apart FY23, how much growth do we see in Pharma segment during FY24 and '25?

Manoj Mehrotra: So, on the Pharma side, if you see typically the revenue growth has been 10% to 12%, if you see overall CAGR of five years, it will be more in the range of 13% to 14%. And yes, in between, we had a little slowdown in one year. And that's why may be this two year period is dropping. But over the extended five year period, we have close to 13% to 14%.

What we are looking at for the future, is adding more new products on the API side. As I mentioned, we are launching several new products on the anti-diabetic segment. And number two is we are looking at building new relationships on the CDMO side where we offer our development and manufacturing services. And the third vertical is the Animal Health business, which we believe has got very good potential. There are limited number of players out here and we believe Hikal is in a very good cost position and strategic position, to ensure that we capture more of the Animal Health market. So, we will be in all the three segments. I think the growth will always be in that range. I will say close to 12% to 15% going forward.

Ankit Gupta: So, from FY24 onwards also like we expect the pharma segment to grow at say 12% to 15%.

Manoj Mehrotra: Yes, that's the guidance. FY23 we will have to wait and watch as we explained on the various issues. But going forward, future definitely we will go back to our growing with these three initiatives I mentioned on APIs, on CDMO business and Animal Health business. We are very bullish on CDMO and Animal Health, because it is up our alley. We have done several such projects and customers like to work with us in those segments. And we have made a success of it in the past and we will do more so in the future in these two segments.

Ankit Gupta: Last question on the gliptin we have been very hopeful that within like two to three years back, we were very confident that gliptin as a segment on the pharma side will scale up, we will see, at least few molecules coming out of this gliptin segment, which can contribute Rs. 50 crore to Rs. 100 crore of additional revenue per molecule. So, if you can talk about how have this segment or gliptin as a segment scaled up for us and how much it is contributing to our revenues?

Manoj Mehrotra: On the anti-diabetic side, there are two segments - one are Gliptins and other are Gliflozins. They are both coming out of patent now actually, like say something like Sitagliptin FY24 will be the real year where we will see significant commercial sales. As of now, we have provided development quantity and seeding quantities to various customers. And they can launch only once the patent expires in various markets, which will start seeing good commercial sales in FY24 onwards on the full anti-diabetic segment.

Moderator: Thank you. The next question is from the line of Dhwanil Desai from Turtle Capital. Please go ahead.

Dhwanil Desai: So, Anish, the first question is, I think, if we go back to our earlier calls, I think we were aspiring to grow anywhere between 15% to 20% year-on-year. And barring FY23, if we, I understand that that commentary continues, and if only pharma segment grows at 12% to 15%, crop protection has to grow at a much faster rate, right. So, how do we correlate these two things together?

Anish Swadi: So, I think, basically, based on what the current situation is, we are being a little more conservative, but we certainly feel that both divisions can grow at 15%. Given the current situation, as we said, it's very difficult for us to give guidance post FY23. But if you look at the comparison between the crop business and the pharma business, you know, crop can scale up much faster than that of pharma because of the regulations and because of the validation and the time taken to actually get to commercial (scale). Being originating as a crop company, 32 or 34 years ago, we know this business inside out, we see the massive demand in terms of both our product pipeline and the commercial that we have currently in process. So, we certainly think, crop being more of a hockey stick approach, while pharma taking its time because of all the regulations, the different markets that we are entering. Both businesses will continue to grow at 15%, and that's how we are confident of how. When is a bit of a challenge to say right now, given where we are today with the external forces that we have.

Dhwanil Desai: Second question, I think, slightly direct question. But, I mean, the change in commentary on demand side, I understand RM pressure and everything is there for everybody. But in a span of these three months, the change in commentary is quite significant. So, is it because, have we lost any significant customers, or contract which is leading us to kind of taper down our growth aspiration for FY23.

Anish Swadi: So, we have lost not a single customer neither have we lost a single contract. Our customers have stood by us during this difficult period of time. And they are still with us. In fact, we are in discussions with our existing customers on how to increase volumes as we go forward. So, our customers are very much with us. The demand has come off, like in the pharma business, as Manoj has alluded to, the demand on the generic side has come off because there have been a lot of inventory. There has been a lot of pipeline in the inventory. On the CDMO side, I definitely see the demand to be buoyant, and it's all about us executing the demand. The challenge there has been is that the input costs have gone significantly high. And for us to be in business, we need to make money as well. So, we are working with our customers taking into account that these are long term relationships, that we will work with our customers to ensure that it's a win-win situation for both of us, but we have not lost a single customer and/or a single contract.

Dhwanil Desai: So, again, coming back to the margin side of it, I think we have been guiding as you said, 50 to 100 bps margin improvement every year as the growth comes back. Now we are undertaking this transformation program of quite a big initiative that we have been talking about. So, this 50 to 100 bps was before even the transformation program that you had undertaken, right. So, I mean, is there any positive rub off impact of that, which can kind of improve the potential of margin improvement going forward?

Anish Swadi: So, we certainly see, I mean, a lot of the programs that we have taken, actually, we would have been worse off had we not undertaken the programs and had our global partner not been with us, because a lot of those initiatives had started late last financial year. So, if we were to compare, and we do compare this internally, had we continued the way we were, in terms of our programs versus what are the value add has been from our external partners, it's significant improvement. So, the raw material costs, the input costs have been so substantially higher than what we had predicted, but some of those cost improvement programs that we have undertaken has helped us to actually save us money otherwise, the impact would have been even worse.

I think going forward, getting on board cost improvement programs also looks at strategic supply chain. So, we have also developed strategic suppliers to derisk ourselves from the Chinese supply chain. So, that takes time, right? So, we have various programs, which will eventually come on stream, I would estimate probably in the next half of this financial year, which will actually lead to supply chain de-risking, and eventually an increase in terms of margin.

Moderator: We will move on to the next question from the line of Shravan from Premier Capital. Please go ahead.

Shravan: So, I needed a little more color on our animal health contract, it's been like a year since we got that contract. So, any color you can give on the kind of CAPEX we are incurring specifically for that large client that we are working with? And also the kind of revenue potential we see over the next three years probably?

Anish Swadi: Shravan, basically as we had indicated in the past calls as well, since this is a very confidential contract, we are not disclosing the amount of investment that we are putting in. However, in this case, our customer is contributing to 50% of the capital expenditure that we are putting into the plant, which shows their long term commitment. It is a 10 year contract, it is multiple products in the contract itself. So, it's a diversified contract. The asset turnover ratio, the revenue is going to be more or less in line of what we are doing today, which is one and a half times what the asset that we are putting in. It is a substantial asset that we are building. And this is just the first phase of the products that we have in the pipeline. So, this is Wave I and Wave II, there's also Wave III and Wave IV that will potentially come down the line.

The animal health business, as Manoj alluded to, is a very strong potential for us, we are seeing a lot of traction in there, not only from this customer, but also from other customers that are now looking at rationalizing their supply chains and their product portfolios. So, we definitely do expect good things for the animal health business in the years to come.

Shravan: Like on previous calls, when we spoke about this animal contract and the kind of CAPEX that we are doing, we clearly said that the CAPEX that we are doing is typically for products that have better gross margins than currently that we have. So, all those things hold, like the kind of the products that would come on stream later part of this year and FY24, the margin profile of those products would be significantly better?

Anish Swadi: Yes I would say they are incrementally better than what we have right now, obviously, it takes time to go to full potential, but we do estimate that the products to be about 45% contribution margins on those animal health products.

Shravan: Just two more questions, one is we are seeing this somber demand environment, but we have mentioned in a press release that H2 we see the animal health, the crop protection CAPEX coming on stream, so that would add to incremental revenues in H2, we would see that only in the latter part of Q3 or Q4, right?

Anish Swadi: Yes, since the plant comes on stream towards the end of Quarter 3 when you fire up the plant, you validate the product, and then you start selling, you will really see some part of revenue coming in this financial year to the end of Quarter 4.

Shravan: This is like my own thing that I wanted to share with you that if you see year-on-year our expenses in such a challenging environment, our expenses are actually gone up. So, our employee expenses are up 30%, while our other expenses are up 10% to 12%. So, in this challenging environment, shouldn't we be following a much more stringent control on our expenses as our margins are down what 800 to 900 basis points YoY. So, shouldn't we be a little more aggressive on cost controls?

Anish Swadi: No you are actually right. I mean, firstly, our margins are down 800 to 900 basis points only when you compare Q4, but for the first nine months of the year, the margins were up, and the growth was there. But that is something definitely that we have been looking at very closely. We have looked at every cost that we have. We have stripped out whatever is not necessary. Again, we had invested for future growth, when you have a plant that's coming on stream, you need to hire because the hiring process itself takes anywhere between four to six months to get people onboard or good people onboard. And these are complex, multi-purpose operational plants that we have. We have also hired for future growth.

So, we are putting the handbrake on a lot of costs. We are rationalizing costs. But the key here is while we do that the focus is on improving margins and growing our business because you can only cut costs so much. But to your point, it's absolutely at the forefront of our current financial governance that we have right now.

Shravan: And just one last question. So, if I just look at the crop protection business, so pharma business till Q3 also, we were facing a lot of pressures Q2 and Q3. But the sequential drop that we see in the crop protection business, can you just highlight a little more whether like the lockdown in China, did that lead to us not being able to meet some demand because of the supply chain issues? Or like, because of the lockdown could we source some of the materials? Or did they went up so high because the sequential fall in crop protection margins is quite a lot like pharma is down, but we were facing those issues in Q3 also. Just if you could highlight a little more on crop protection business, because when we spoke last on 10th, February or when we had the last call at that time the scenario of the crop protection business wasn't that bad. So, I understand the war and everything and that has taken place post that only, but I really like if you could just highlight a little more on what actually transpired in the crop protection business for such as sharp sequential decline.

Vimal Kulshrestha: As I mentioned to you in my speech that there has been supply chain disruptions which we faced and those disruptions are, one is the availability of raw materials and other is the price. The way there was sharp increase in crude prices, energy also has almost become double. And they were issue of passing the cost to the price and the availability of raw material and that has impacted between Q3 and Q4.

Moderator: Thank you. The next question is from the line of Piyush Jain from Hansraj Virendra Capital. Please go ahead.

Piyush Jain: My question is on the product pipeline on the pharmaceutical segment. So, if we look at our DMF filing for last two to three years, it's been a one API for each year. And as you are bullish on the growth which would be coming in the pharmaceutical segment, so is that you are expecting from the existing products? Or are you having a new product in the pipeline which you are working? And that is going to drive the growth in the pharmaceutical segment?

Manoj Mehrotra: So, first is this, our DMF filing has been more than one per year, if you see the average, it has been two to three per year. And that is the philosophy where Hikal works on that we will file less number of DMF. But we will ensure that the DMF are commercialized and we have a good cost process. Now on the future growth, it's really a mix of getting more customers for existing products and increasing market share as well as getting into commercializing these new DMFs.

As you know that what DMF we file today, it's actually a three to four year process to really commercialize. So, it takes some while. From a current level of two to three DMF we will actually now we will accelerate growth to four to five DMF per year. And that's the reason we are investing more in R&D in the last one to two years. And we will continue to do that. And as I mentioned that it will always be a combination of old plus new.

Piyush Jain: And the second question is on the CDMO pipeline. So, I think if we look at the sales pick up in the pharmaceutical segments, so it's something from FY20 to FY22 it has gone significantly down from 54% of the sales to 44% of the sales. So, can you throw some light the impact due to some projects have been dropped off from the pipeline, or how this pipeline looks like in the coming two, three years, means are we adding some late-stage projects or how this pipeline is going to evolve in the coming time?

Manoj Mehrotra: See the CDMO projects are always dependent on the forecasts from customers. And there are years when the customer goes in for inventory correction, which was in the last year I will say that customers wanted inventory corrections because they had built up excess inventory during the pandemic. So, that corrections are taking place at this point of time. But at least the base business will be back to where it was I will say in the next, Q2 onwards.

Now on the new product pipeline, yes as we mentioned in our opening statement, several new customers are being added as we speak. Many of them are coming for audits and discussions with us now since the pandemic is getting better, I will say, and on site visits have restarted. And we are confident of adding several customers going forward.

As we have mentioned previously that all customers are looking for alternatives beyond China or what we call the China-plus-One strategy. And that is playing out in the CDMO segment, which we are seeing very clearly. We are seeing several new RFPs coming towards us. And our conversion ratios have also increased in the CDMO segment. And the same logic applies on the animal health segment where several big pharma companies have animal health businesses and they also want to partner with new companies in India. So, overall I will say very healthy pipeline of CDMO projects.

Piyush Jain: New order inquiry, which you had mentioned is it largely the Phase-I and Phase-II, Phase-III molecules or already commercialized?

Manoj Mehrotra: No, it's a mix I will say, Phase-III or to be commercialized. Phase-I, Phase-II come with their own risks. We have a few of them. But what we are referring to or I am discussing now are more in Phase-III and on the way to commercialization now. In fact, two KSMs what we had signed that's already a commercial product and we are doing the scale up or validation quantities at this point of time.

Moderator: Thank you. The next question is from the line of Pankaj Jain from Mahavir Investments. Please go ahead.

Pankaj Jain: Actually, just going through your collaterals and hearing throughout the call, I understand that there are some short term challenges that the company is facing currently. But can you please elaborate or throw some light on how do we see the long-term prospects shaping up, maybe longer-term view and especially the initiatives which we have taken and also the transformational program that we have undertaken. If you can just give us a long-term view how the company will be shaping up?

Anish Swadi: I think the transformational program is well underway we have identified, not only have we identified several opportunities for taking out costs and bringing in more efficiency, but we have actually identified several strategic initiatives with customers and product pipelines, which are actually yielding results as we speak today. I mean, as you have heard from both businesses, the pipeline has been increasing over the last two quarters substantially. And as Manoj has alluded to that there are really live products in the pipeline, which are Phase-II and Phase-III and some semi-commercial as well. Vimal himself in his crop protection business has several products in the pipeline close to about six right now that are underway, that are being evaluated at the proof-of-concept stage, and that will soon go into semi-commercial stages.

So, I think overall, from a company perspective, we certainly see growth returning. These are short to mid-term challenges that we feel that are more external, and I think the entire environment is being affected, like every manufacturing company out there is being affected by the increase in terms of raw material costs, as well as utilities. To be more business specific, I will hand it over to Vimal and he can take you through some business insights.

Vimal Kulshrestha: So, in crop production from CDMO customers, we are getting lots of inquiries, we are getting inquiries from the same customers for additional products, new products, as well as from new customers also, especially from U.S. and Japan. In our own products, we are going to commission our one fungicide plant at the end of this financial year. And there we have one more product which is under development. And we have two to three more products which are on development, which are expected to come in line maybe next one to two years. So, we see a good momentum going forward.

Moderator: Thank you. Ladies and gentlemen, due to time constraint, we will take one last question from the line of Pranay Dhelia, from Panchatantra Advisors. Please go ahead.

Pranay Dhelia: I have a couple of questions on the financial front. Can you please give the total debt figures, the term loan as well as the working capital?

Vinay Baliga: Yes, so the total debt as of March '22, was Rs. 675 crores, which comprises of Rs. 273 crores of working capital debt and Rs. 402 crores of long-term debt.

Pranay Dhelia: So, what we can make out in this call is that the pessimism that you are showing for this current year is only because of the raw material cost push, you don't see any shock or any problem from the sales side? You are only concerned about the profitability, the top-line does not bother you?

Anish Swadi: Yes, I mean primarily, it's driven by raw material, input costs, right, because there have been certain circumstances in which products have become unviable to sell, because in Q4, and as we see in Q1, because of these sharp increases in raw material costs and supply chain challenges. From a demand perspective, we don't see challenges. But if these raw material situations and supply chain challenges and energy costs come down, then certainly we definitely see an upside potential. But to your first statement, certainly, I think Q1 as it's shaping up is definitely more challenging than Q4. But Q1, we hope to bottom out at, and then there will be a stepwise increase as we see it Q2 through Q4 of this financial year.

Pranay Dhelia: And the Taloja facility, how much was it contributing to our topline, what has been disclosed by you in the previous documentaries has been about say Rs. 220 crores that's almost 10% to 12% of our total topline.

Anish Swadi: Yes, that's correct. It's increased slightly, it's about Rs. 260 crores odd, Rs. 260 to Rs. 280 crores is what it contributes to our topline.

Pranay Dhelia: So, considering you are already expecting a muted quarter, the shutdowns would not be impacting you?

Anish Swadi: Yes, impacting us from what from what way in addition to that, I mean, that's part of the reason why we have a muted quarter.

Pranay Dhelia: And lastly, I have been a shareholder for almost seven years with the company. Prior to this we would pat in on our backs saying that we had managed to de-risk ourselves in raw material procurement from China, and other things that Sameer had said initially. Unfortunately, he is not there in the call, I hope he is there next time around, but all of a sudden, we are seeing that there has been no precipitation in our raw material changing policy, because it's affecting us even harder now.

Anish Swadi: See, we have de-risked our supply chain significantly. But it's not only China's supply chain that's affecting it's also domestic supply chain that's gone up, right. Input costs have gone up substantially. I mean, feedstock itself is not available, you have seen solvent prices that have gone up about 40%. Input costs from domestic suppliers themselves have been affected. So, even if you are zero reliant on China, you would still have input costs. I mean, there are a lot of companies that have no reliance or very limited reliance on China they still have significant input costs increased.

Manoj Mehrotra: This time, the disruption has been more global. It's not only restricted to China, because of the COVID crisis and the crisis in China, now the Ukraine war, so it's all over.

Pranay Dhelia: And because of Ukraine war do we see any less off take in Europe or that stands as normal?

Manoj Mehrotra: No off take stands, in fact there is a customer for us in Ukraine who is actually resumed buying now. So, off take stands in all of European market, but it is the input costs which have become unpredictable. And all our customers have long term contracts, they have government tenders and all. So it's very difficult for us to really pass through the cost immediately, it takes time. We would also like to maintain relationships with them.

Pranay Dhelia: Are you planning to enter into some long-term contracts with your suppliers to mitigate this for future?

Manoj Mehrotra: We do that definitely. But this time, in our opinion, it has been to some extent force majeure as well.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Anish Swadi for closing comments.

Anish Swadi: So, I would just like to take this opportunity to thank everybody for joining the call. I hope we have been able to address all if not most of your queries. For any further information kindly get in touch with Strategic Growth Advisors, who are our Investor Relations Advisors. Thank you very much and stay safe everyone.

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