"Hikal Limited H1 FY19 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Hikal Limited H1 FY19 Conference Call. This conference call may contain forward-looking statement about the company which are based on the beliefs, opinions and expectation of the company as on the date of this call. These statements are not the guarantees of the future performance and involve risk and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the 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. Sameer Hiremath - Joint Managing Director & CEO. Thank you and over to you, sir.

Sameer Hiremath: Good afternoon and a very warm welcome to everyone present at our Semiannual Earnings Call. I am Sameer Hiremath – CEO & Joint Managing Director and along with me I have Mr. Anish Swadi – President (Business Development & Strategy), Mr. Kuldeep Jain – Financial Controller and Strategic Growth Advisors, our Investor Relations Advisors.

I am pleased to interact with all of you on this Semiannual Earnings Call. I hope you have received our investor press release and results by now. For all of those who have not, you can view these from the stock exchange and on our website. I am pleased to inform you all that the first half of the year started on a very positive note. Revenues for the first half of 2019 increased by 29% and profit after tax increased by 41%. Our EBITDA margin have also improved to 18.9% on higher volumes and better realizations. Our Pharma business contributed to 60% of the revenues while the balance 40% was contributed by the Crop Protection division.

For the first half of the year, our Pharma division grew by 31% from Rs. 326 crores to Rs. 428 crores. This growth was supported by increase in the sales of our existing product and introduction of new products. Our Pharma business is majorly export-oriented with approximately 55% of the sales coming from US, 30% from Europe and balance from the rest of the world.

The segmental EBIT for the first half of FY19 stands at Rs. 57 crores showing a growth of 39% as compared to the previous year of Rs. 41 crores. The EBIT margins have improved from 12.6% in H1 FY18 to 13.3% in H1 FY19. Currently, we have around five to six products in contract manufacturing and about eight to nine products in our generic portfolio. Recently we had initiated a debottlenecking exercise at our Bangalore and Panoli facility in the first quarter. We are happy to inform you that this debottlenecking exercise is completed which has enabled us to supply higher volumes based on the increased demand of our customer. We continue to strengthen our portfolio of products with new launches and expand our existing contract manufacturing business with new contracts and new products in the pipeline.

For the Crop Protection business, for the first half of this financial year, the business grew by 26% from Rs. 233 crores to Rs. 293 crores. 9 to 10 products in our Crop Protection business are in the contract manufacturing and five to six are our own products. No single product in the contract manufacturing business contributes more than 15% of the total revenues of the Crop business. As part of the total Crop business, we have diversified our product portfolio towards Crop Protection products or agrochemical i.e., biocides and specialty chemical market, which contribute approximately 20% of the total Crop Protection sales (Biocides and Specialty chemicals market business is 20% of the total Crop Protection sales).

The segmental EBIT for the Crop business for the H1 FY19 stands at Rs. 50 crores showing a growth of 56% as compared to the previous year of Rs. 32 crores. The EBIT margins have improved from 13.7% in H1 FY18 to 17% in H1 FY19. Going forward, our key focus areas would be products in the fungicides, insecticide and herbicides space which are the main drivers in the Crop Protection market globally. With the irregularity and challenges facing Chinese supply, we have seen an increased demand for our product(s) and we expect this momentum to continue in the future.

We have several products in the pipeline for contract manufacturing and we are on the verge of signing many new contracts in this business. Each of these new products has a potential to provide us with significant growth going forward. We also recently completed a successful audit by the Japanese Regulatory Agency PMDA at our Bangalore facility. This audit was carried out in May, 2018 which was focused on compliance in Good Manufacturing Practices (GMP). The session concluded successfully with one minor observation and a certification approval has been received. This has opened up the Japanese market for us and should generate new opportunities in Japan in the near future.

I am happy to inform you that we have received an upward revision of credit rating from ICRA. They have upgraded our long-term bank facilities, working capital facilities and term loan facilities from A- to A. Our short-term facilities have also been upgraded from A2+ to A1. This reinforces a trend of strong revenue growth coupled with revenue diversification and improvement in the overall business performance. As the company going forward, I would like to reiterate a growth guidance of 18% to 20% over the next two to three years and I am confident of maintaining and improving our margin profile for both the segments.

Thank you and we are open for questions.

Moderator: We will begin the question and answer session. We have the first question from the line of Hitesh Cheda from Lucky Investments. Please go ahead.

Hitesh Cheda: Some color on the volume growth side in Pharma and Crop Protection where you said that the top line growth is 31% and 26%. My second question is what is the outlook in H2 for the growth on the volume side and I have one last question which is what kind of CAPEX and business addition is possible over the next 12 months?

Sameer Hiremath: First question was regarding volume growth for our two businesses. I think volume has grown by between 13% to 15% for both our business and the rest has come from price increases and benefit of exchange rates, that was your first question. And the second question was regarding the second half outlook for the volume growth, I think we expect the volume growth to continue going forward in the second half as well. I believe your third question was regarding CAPEX and business. We also mentioned in the last annual call, we expect a CAPEX of approximately Rs. 250 crores in the next 18 months to 24 months and based on that we have given this guidance. We expect the growth to be about 18% to 20% going forward.

Hitesh Cheda: Can you give some color on the business that would be added through this CAPEX, just now you mentioned that you have 5 to 10 molecules in CRAMS and 8 to 9 in generic in Pharma, so some color on number of molecule or some color on the value of business possible from this CAPEX?

Sameer Hiremath: We expect between 1.5 to 1.75 asset turnover ratio typically for this business. So, close to about Rs. 400 crores of revenues potential growth is possible from this CAPEX. It will be combination of some of our generic products and some contract manufacturing businesses for which we are building new facilities which are all Brownfield on our existing sites and we are debottlenecking some of our current plans.

Hitesh Cheda: So, these are all new molecules to be added?

Sameer Hiremath: It is a combination, some of the existing product volumes are increasing so we are debottlenecking the plans and we are putting some new capacity, multipurpose plan capacity and also new contracts that we are signing for custom manufacturing.

Hitesh Cheda: Just lastly in the growth rate you mentioned that 13% to 15% is volume and balance is price and exchange, so the exchange led growth rate would be how much?

Sameer Hiremath: But historically in the last six months it has been aberration. I think it has been about 4% or 5% of our growth has come from exchange rate, but if we give an estimate of about 18% to 20% going forward, we expect volume to be in around 15% of that and the balance will be between exchange and prices between 3%, 4% it is not much. We do not expect the rupee to continue to devaluate at this rate going forward.

Hitesh Cheda: So, the current 25%, 30% as a large component of price led growth rate also?

Sameer Hiremath: Yes, because we had to adjust for the increase in raw material prices from China and from India which we have been able to successfully do and pass on the price increases to our customers over the last six months.

Moderator: The next question is from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: My first question is with reference to Crop Protection business. This quarter the growth is little bit subdued compared to what you have seen last about seven to eight quarters, can you clarify?

Sameer Hiremath: Basically, as we mentioned large part of our Crop business is custom manufacturing. So, it is just a quarter-on-quarter phasing. I think if you look at an overall from a six monthly basis we have grown Crop business pretty substantially on a six monthly basis. It just happens to be at the quarter-on-quarter. The best estimate would be to look at it from a six monthly basis which is 26% I think quarter of 13% is not an accurate estimation of the way the business is looking.

Rajesh Kothari: Secondly if I look at the PBIT margins that has increased significantly in Crop Protection business despite lower revenue growth, so the first quarter margin was 16% which is now 24%. Although the revenue growth is subdued so is it like some high margin products you are supplying in your contract manufacturing segment that results into this PBIT margin?

Sameer Hiremath: Yes, I think it is a product mix impact, because the change in product mix is able to improve our margins and also what happened in the last year, we have been able to get the price increases from our customer now. It takes time because of the lag effect typically. So, the price increases have all come in now so that is a combination of product mix and price increases that we have got from our customer.

Rajesh Kothari: So, if I look at on overall company basis the gross margin, do you see further improvement in gross margin compared to currently like I think this quarter we are at about 48% gross margin. Historically, there were few quarters where it used to be even 50% to 51% gross margin, so one should look at gross margins?

Sameer Hiremath: I think it is going be in this range, not much higher we are not going to be in that range. I think we will be able to maintain that and maybe slightly improve it.

Rajesh Kothari: If I am not wrong the pricing of Gabapentin has gone up significantly, can you see how much it contributes to your revenue and what kind of price increase we have witnessed?

Sameer Hiremath: So, we have been able to pass on the price increases for Gabapentin to all our customers and the overall price of Gabapentin has gone up in the market. Gabapentin contributes to little less than 40% of our current pharmaceutical business. It is about 15% to 16% of the total company turnover and it did not get down to below that in the years to come. It has been de-risking our product our strategy is to not have any product more than 10% of our total sales and we will get there one or two years from now.

Rajesh Kothari: And this continued significant price increase in Gabapentin in the global market can you give more details what are the reasons for this price increase and do you think this kind of price trends will sustain and also what is the approximate price increase in Gabapentin as a segment in last say three to six months?

Sameer Hiremath: So, I think the Gabapentin market has grown globally and the number of players have also reduced because of quality and supply issues and Hikal has a very good track record on the FDA and Japanese authorities. So, we have been able to get our customers who are buying from us and there has been a consolidation in the end customer market and on the supply side as well and we have been able to pass on the (cost) increases and the whole market has corrected I think in Gabapentin upwards.

Rajesh Kothari: I am repeating my question how much is the price increase in Gabapentin segment in the last three to six months any ballpark numbers?

Sameer Hiremath: I do not have that on me actually right now.

Rajesh Kothari: It would be like 15% to 20% or more than that.

Sameer Hiremath: It is about 5% to 10% in that range. I mean 15% to 20% is too much 5% to 10%.

Rajesh Kothari: What is your FOREX policy?

Sameer Hiremath: So, we have a net stable position and a forex policy for the forward based on that.

Rajesh Sharma: So, right now we are covered up to.

Sameer Hiremath: But currently looking at the volatility in the market from last quarter onwards we are not making any open positions and currently we have no open positions at all in the FOREX. So, whatever improvement we get it goes straight to the bottom line. We have no FOREX right now.

Rajesh Sharma: You mean no FOREX coverage from last quarter onwards?

Sameer Hiremath: For last quarter we stopped taking coverage because of volatility in the market we were advised not to take anything.

Rajesh Sharma: But in all contracts there can be the better pricing realization right whether in second half you might see impact of the higher FOREX which we have seen in second quarter, can we see that more impact of that in third quarter and fourth quarter?

Sameer Hiremath: Second quarter already has been a big impact. I think it is expected to remain.

Moderator: The next question is from the line of Vijay Sarda from Crescita Investments. Please go ahead.

Vijay Sarda: I just wanted to understand in terms of the inflation on the raw material as well and secondly just wanted to understand how much of our raw material is imported from China and are we seeing some disturbance there in terms of the supply?

Sameer Hiremath: Yes, so raw material inflation I mean crude oil prices have gone up, recently slightly gone down. Luckily all our contracts have a complete pass through on the raw material prices so we are able to pass on all the raw materials straight away to our customers. On our own products we have short-terms contracts with our customers. So, whenever there is an increase, we go back to them and we have been able to get price increases. Total raw material that we buy from China is about 30%, 35% of our total raw material that we buy. I think the worst is behind China, whatever (cost) increases and shortages had to take place have already taken place in the last six to nine months and we have seen things stabilize now in the Chinese market and we also have multiple supply options in China and we have also backward-integrated into Indian alternate vendors for many of our products. So, the risk of anything going crazy in China is reduced considerably now. There are lot of shortages, lot of factories have shut down, many of them have restarted now and capacities (have) come back. So, shortage has definitely gone. Prices are still remaining on the higher side and we have been able to pass on the increase to our customers.

Vijay Sarda: Secondly in terms of this FOREX, what is the hedging policy that we have and how is that been because I think export is a substantial chunk of our revenues.

Kuldeep Jain: We have a well-defined hedging policy by the board. We have the policy of hedging 30% of the net exposure, but we did not do ever 30% because of the high volatility of the foreign currency. And as of now as Sameer mentioned in the previous question, we do not have any open hedging as of now. We have stopped doing anything because we have been advised by the advisors of FOREX policy to do nothing at this moment.

Vijay Sarda: But sir there is no state policy that whenever you sign contract or whenever you have a contract in place you do back-to-back so it is all view-based from the consultant or this is a stated policy that you are booking the revenue then you just take the forward and get it off from the book.

Anish Swadi: When we signed a contract basically we sign long-term contracts, but we negotiate prices every year. Based on the currency of every year, we look at what the volatility of the US dollar or the Euro is to the Indian rupee and then we take the call. But at this point given the volatility in the last two quarters that we have seen, we have left an open position and we have a very simple hedging policy which is foreign exchange revenues minus interest on foreign exchange loans (and) repayment, and foreign exchange costs and then we then we take a net open position and do (hedging on) 30% on that, but we have put that on hold given the volatility.

Vijay Sarda: Sir, last thing in terms of this contract that you said is a raw material price pass on so is there this foreign currency fluctuation is also pass on into contract manufacturing contract or that is the risk that we have to take?

Sameer Hiremath: No, you can pass on there is no risk to us.

Vijay Sarda: So, basically even if it comes down or go up it is not your headache. So, whenever you bill then you will pass on that kind of effect to them as well.

Sameer Hiremath: We have no risk on this foreign exchange.

Moderator: The next question is from the line of Viraj Mehta from Equirius. Please go ahead.

Viraj Mehta: Sir can you give me the CAPEX number for this year and next?

Sameer Hiremath: I think that somebody asked this question earlier. So, it is about Rs. 250 crores over the next 18 to 24 months you can divide that by two years, more or less 50-50.

Viraj Mehta: Is it fair to assume that you will have the same asset turnover of 1.5 or 1.75 on the same?

Sameer Hiremath: Yes.

Moderator: The next question is from the line of Nitin Gandhi from KIFS Securities. Please go ahead.

Nitin Gandhi: I just need a little clarification as far as last year FY18 is concerned, revenue split was 40-60 between H1, H2 and profit was 35-65, so are there some seasonal adjustment, so this was something which was abnormal last year and it is unlikely to be there? If it is unlikely what is the likely (number) be for the current year?

Sameer Hiremath: I think that is our trend our business. If we look at historically it has always been about 45-55, 40-60, few percent up and down, but second half is always higher than the first half.

Nitin Gandhi: As far as your hedge policy is concerned what I understand is net obligation is hedged 30% or is it hedged 70%?

Anish Swadi: 30%. But at this point again, to reiterate, we do not have any hedged position, it is an open position.

Nitin Gandhi: But whatever the net obligation is, you are anyway keeping only 30% hedge, so 70% is still again exposed to exchange risks, right?

Anish Swadi: That's correct.

Moderator: The next question is from the line of Ashish Thakkar from Motilal Oswal Asset Management. Please go ahead.

Ashish Thakkar: So, on the clinical side of your business, would you be sharing how many number of molecules you have in the late phase three, be it in the Agri or the Pharma side of the business?

Sameer Hiremath: On the Crop side, there is no clinical type of business. It is more of a registration type. But we have about one or two products on the crop side which are in late stages of registration and launch. On the Pharma side, we have about three to four molecules on the phase two, phase three type of, about to be launched spectrum.

Ashish Thakkar: So, in near like say 12 to 15 months would you be giving us any color on whether any of the products, is there an opportunity for us to participate into the commercialization stage?

Sameer Hiremath: Yes, there is but it all depends on whether it goes into approval and all that. There is a risk in this business as you know so we also have to keep on working on more and more projects.

Ashish Thakkar: So, these Rs. 250 crores of CAPEX for the next two years or so this is largely for these kind of opportunities on the manufacturing side or they are for the development side?

Sameer Hiremath: Mostly on the manufacturing side, where we have contracts already tied up and some of our existing molecules where the demand is increasing and based on customer request and interest, we are increasing the capacity.

Ashish Thakkar: So, given the current trend you feel this kind of EBITDA margins are sustainable?

Sameer Hiremath: Yes.

Moderator: The next question is from the line of Sunil Kothari from Unique Investments. Please go ahead.

Sunil Kothari: I am concerned about this hedging policy as I do not understand much but sometime we hedge, sometime we keep open, sometime we take view on volatility. I think we remember our past experience when we lost a lot of money by this FOREX related volatility. As an investor I will be worried about taking any view on currency because what I understand is say now if you do some contract at Rs. 72 or Rs. 73 and suppose ii goes back to 65 then you mean to say customer will bear the cost or we will have to bear the cost?

Anish Swadi: Let me just explain look the past we had a totally different type of hedging policy. Now we basically got a very clear-cut hedging policy which basically is taking straight forward covers and taking straight forward cover on the net differential of what is available to us and a percentage of that which is around 30%. We do not do any arbitrary hedging. So, we have a firm hedging policy which is reviewed by the board every quarter. Given the volatility of US dollar and the Euro to the INR at least in the last six months we took a call on not to go ahead and do any hedging. Also, a lot of our contracts used to have a built-in clause which (+/-5%) in there which also we have removed. So, now we have more of an open hedge for the US dollar as well as the Euro contracts that we have. So, depreciating currency does help us in the long-term. Our business is not to make money on foreign exchange, our business is to make money on operations and profit of manufacturing and selling the products. So, we keep that clear in mind and we stay away from any volatile hedging policies.

Sunil Kothari: So, sir suppose this currency again appreciates and in previous answer to one question what you said is the FOREX movement we can pass on to customer so is it possible suppose currency appreciates at 10% then our realization will remain the same, that is what you mean to say?

Anish Swadi: When we discuss contract manufacturing, we look it at on the basis of yearly contracts. Annual price we look at. Obviously if there is a huge volatility in price whether it is up or down, we reevaluate that. Also, what you must understand is that when we do go back to our customers to increase prices just because either raw material in India and/or China the prices have substantially increased, so we pass on those raw material increases to the customer and it is obviously maintaining the current price in the market of what is sustainable for the customers as well.

Sunil Kothari: Sir one more thing this FOREX loss of Rs 4 crores this quarter and first quarter also around Rs. 4 crores that is related to FOREX loan we had?

Kuldeep Jain: That is basically has two components – one is the packing credit facility which we have to restate as on the last day of the quarter which is Rs. 1.6 crores but we had a loss on the term loan also because we have adopted IndAS from 1st April, 2018 now we have to restate our loans as well and exchange gain or loss has to pass through the P&L, which is a notional actually nothing has been paid so far.

Sunil Kothari: Suppose currency remains here then there would not be any loss now onwards?

Kuldeep Jain: Yes. If it is at73.5, we will not have any loss going forward.

Sunil Kothari: And if it appreciates then there will be some gain?

Kuldeep Jain: Yes, there will be some gain, yes.

Moderator: The next question is from the line of Aman Vij from Astute Investments. Please go ahead.

Aman Vij: Sir, two questions from my side. First could you segregate the Rs. 293 crores revenue from our Pharma business into contract manufacturing, generic and animal healthcare and maybe what was it like-to-like for H1 FY18?

Sameer Hiremath: The split is about approximately 50-50 between our generics and custom manufacturing business and that is even for a first half and this quarter as well. It varies by few percentages up and down but it is in that range.

Aman Vij: What is the contribution of animal healthcare molecules in that?

Sameer Hiremath: In the custom manufacturing business it is about 20%-25%.

Aman Vij: The second question is regarding, apart from our main molecule which is Gabapentin, what was, we had talked about lot of new molecule registration which we did last year, could you update us (about) maybe the newer molecules, what is the contribution to sales in Pharma segment as of now, (from) the three DMF we have filed and four CEP we have filed and also our strategy going forward in Pharma segment?

Sameer Hiremath: We had talked about a product called Pregabalin last time Venlafaxine, Quetiapine, Valaciclovir. Pregabalin has already started commercial sales so as Venlafaxine and we expect that to contribute to about 5% to 10% each to our business, between these 3-4 products we expect about 30% contribution to our revenues in the next 2-3 years. It is growing every year. It keeps growing as it gets more approvals, Pregabalin goes off patent next month in the US. So, in 2019, growth will take place. Venlafaxine is already off-patent, it is growing in Desvenlafaxine, Quetiapine is growing, Valaciclovir is growing. We have Bupropion. We are really broadening our portfolio going forward and our Gabapentin reliance is coming down year-on-year on a total Pharma business.

Moderator: The next question is from the line of Kashyap Jhaveri from Emkay Global. Please go ahead.

Kashyap Jhaveri: Just wanted to ask on the CAPEX side where you mentioned Rs. 250 crores how much of that has already been spent in H1?

Sameer Hiremath: About Rs. 50 crores has been spent.

Kashyap Jhaveri: And second question is on your audits from regulators you had an US FDA audit pending on your Bengaluru plant has that started or it is yet to start?

Sameer Hiremath: US FDA audit was over and we had a PMDA audit recently and we have said the FDA to come back in the next year but we do not know when but they will come back.

Kashyap Jhaveri: So, I think you were planning to launch two APIs in Japan that is what I understand from the annual report does that get postponed?

Sameer Hiremath: No, because we had a PMDA inspection in May, 2018 which was successful. I am sure that we can launch these products in Japan now, we have got the clearances.

Kashyap Jhaveri: And what is the size of those molecules if you could help us with that?

Sameer Hiremath: I mean typically in between Rs. 40 to 50 crores between two, three products in Japan. Japan is a smaller volume, but in a higher margin business.

Moderator: The next question is from the line of s Devang Patel from Crest Wealth. Please go ahead.

Devang Patel: Sir you spoke briefly about reducing dependence on China on imports. Over the last 10 years, imports as percentage of sales has gone up from 20% to 36%, so could you quantify going forward how much can you reduce imports and which products can you reduce imports?

Sameer Hiremath: Because the number of products has also increased in the last 10 years. So, our China dependence probably has gone up from 20 to 36, but when you look at alternate vendor development for almost all our products which we are buying from China in India and we expect that number to come back to about the mid-20s in the last few years and we are backward integrating into some products on our own also, where we see a cost position advantage.

Devang Patel: So, across products we will look at more domestic sourcing?

Sameer Hiremath: Yes, we have already started. We have already got alternate sources. We have got a Chinese source and an Indian source already approved in our DMFs. So, as and when the supply situation or a pricing situation change, we always compare the Indian option to the Chinese option and we take a decision, we have both the options in our filing so all our key products.

Deevan Patel: Does it make a difference in the pricing or the pricing is at par?

Sameer Hiremath: Sometimes I mean China becomes cheaper sometimes it is more expensive for example today in some products, with the dollar being at 74, India is a better option. If dollar was at 66, (then) in those products, China was looking like a better option. So, on a case-to-case basis, we keep reviewing it every few months and taking decisions.

Moderator: The next question is from the line of Rohit Ohri from Progressive Shares. Please go ahead.

Rohit Ohri: One question, two parts. This is actually related to the Panoli Plant. What exactly would be the total area that is (being) constructed in Panoli right now, because I understand that there are some expansion plans in Panoli. What would be the capacity that you are having right now and what would be the growth CAPEX that you are looking at, at the Panoli plant?

Sameer Hiremath: Panoli site is about 30 acres and we have utilized less than 30% of the total side. So, you have almost 70% to 75% of space available for expansion because we primarily focus in our Bangalore site where even in Bangalore, in our Pharma facility in Bangalore, we have 50% space for expansion, we already have a land and we already have the infrastructure already there. So, whatever we put in both our sites, it will be Brownfield and a lot of investment in the last couple of years has gone into infrastructure CAPEX, and for the future CAPEX, we expect less to go to infrastructure and more to go into revenue generating CAPEX. To come to your capacity utilization, I think the plants are running at pretty high level of capacity utilization between 75% and 80% currently, and we are continuously debottlenecking and we are building a significant amount of capacity. So, we expect our total reactor volume, how we measure in our business, to grow by almost 40% in the next two years with this CAPEX that we are putting in with these 250 crores because most of it will go to building revenue generating CAPEX.

Rohit Ohri: As far as I understood you were trying to de-risk the Bengaluru plant and you know you are trying to shift certain part of Bengaluru to Panoli., So, has that been done or are you looking at making Panoli as a one stop for everything?

Sameer Hiremath: Lot of this CAPEX of Rs. 250 crores most of it is put in Panoli and we are putting in place, as we speak, we're building a US FDA API plant and we hope that to be ready by middle of next year and go for FDA inspection and get FDA approval by end of 2019. So, we will de-risk the site in Bangalore.

Moderator: The next question is from the line of Lavin Shah from Value Quest. Please go ahead.

Lavin Shah: So, my question is on this Crop Protection segment that we see the kind of growth that we have reported for first half is really very strong, so is this growth coming from the existing client, existing molecules or have we got into new clients and new molecules?

Sameer Hiremath: We have launched a few new molecules last year which have grown in volume this year and but lot of it is existing product where demand is increasing because of the shortages in China and also because of demand has increased in these products, because part of our Crop business is also specialty chemicals and biocides which is into material protection. We are seeing a lot of growth in that business and we are also selling in the domestic market of those products and that market is also growing pretty fast.

Lavin Shah: So, is the understanding correct that basically we are seeing some of our customers shifting to us from other suppliers?

Sameer Hiremath: Yes, we have seen that in several customers. Many customers on the innovator side had moved to China in a big way and a lot of them have been having major supply issues with China, so they call to look at Indian companies now more and more and Hikal is one of the few companies that has been considered and getting more opportunities for new products.

Lavin Shah: And the set of clients remains the same right?

Sameer Hiremath: I mean in the Crop business there were 10 clients now they have become 6 they have all merged or they have been sold to each other and we work with almost all of them within the industry.

Lavin Shah: So, then on the margin front if you have seen in this quarters also our margins are more stable into Crop Protection whereas if we see across the industry everybody is facing this margin pressure so how have we been able to maintain our margins?

Sameer Hiremath: So, we have a combination of our own products and custom manufacturing. And even in our Crop business, we have diversified our product base to do niche products for the Japanese market, we have some large volume products where the margins are slightly lower, but higher volumes (are there). So, we have a product mix approach and we look at asset utilization, operation excellence and we ensure that we always run our plant at high throughput, high capacity and keep cost very low and a very low-cost manufacturing set up has been maintained.

Lavin Shah: So, in a scenario, where even currency let's say corrects from here we will be able to maintain our gross margins?

Sameer Hiremath: Yes, I think so. We are not very concerned with currency volatility.

Lavin Shah: So, this margin whatever EBITDA margin that we have reported around 19% that should continue going forward?

Sameer Hiremath: Yes, we are very comfortable with that.

Moderator: The next question is from the line of Narayan Ratnam from MS Securities. Please go ahead.

Narayan Ratnam: My question was in terms of the Chinese capacity currently stabilizing. Do we see some sort of contracts going away because of the delta advantage which we used to have earlier when clients used to rely on Chinese suppliers because of the cost effectiveness, but now because of the capacities stabilizing would we kind of envisage any reduction or kind of decline in the orders because of this?

Sameer Hiremath: No. I think the Chinese capacity is stabilizing which means supply is coming back, but they have to invest in fresh waste water treatment capabilities and facilities so it is a new CAPEX and the prices are definitely not coming back to where they were two years ago. So, while supply may come back into the market, prices will still remain on the higher side which will still ensure that the Indian companies remain competitive.

Narayan Ratnam: And the other side was also with regards to a lot of MNCs are kind of consolidating the agrochemicals segment domestically, do we envisage competition to get more stringent going ahead?

Sameer Hiremath: No, I think in Crop Protection business and now in any chemical business, you need critical mass and scale with the environment norms also in our country becoming so stringent, the National Green Tribunal getting involved, right from the (government at the) Center (and) Supreme Court getting involved in many cases. Unless you have that critical mass and scale and all those treatment facilities, you have to be a large player to survive in this business and whoever has invested in the last 10 years, 15 years will remain, and (for) the small-scale guys there is a big entry barrier now because chemical industry is for the medium to large scale players only now going forward.

Moderator: Due to time constraints we will be able to take one last question. We take the last question from the line of Dilip Joshi from SK Capital. Please go ahead.

Dilip Joshi: I have just got a couple of questions small ones related to your R&D investments if I may. In the last year you had Rs. 45 crores investment in to R&D and this year could be 50 plus because you do between 3% and 4% of sales. so my question is does this figure of Rs. 45 crores include any new molecule where R&D support is extended to various innovators because I presume you will be getting some sort of tailwinds from China because innovators have been badly burnt there because of the supply constraints so that is one part of the question to do with the innovator support from that Rs. 45 crores that you mentioned. And the other one is that how much as a percentage if you disclose of this R&D intensity is related to the new sort of area in Pharma and things like biologics or biosimilars and that sort of thing and lastly any net addition to the number of scientists please in the last one year?

Sameer Hiremath: I think first question was regarding the R&D expenditure, we will maintain that number of 3% to 4% of sales and you are right with the number you are absolutely spot on. Regarding the innovative companies and the custom manufacturing business, so, R&D does two types of work for the company. One is for generic development or the APIs and also on custom manufacturing, typically clinical trial. (At) any given time, we are working with two, three clients on that and we have a few products in the pipeline. Regarding new areas and new investments, we are not in the biologics for biosimilar space. We are expanding our chemical manufacturing expertise with new technologies. We see sufficient amount of growth opportunities in the chemical business that is what we currently do and employing new technologies in that. You asked the question about manpower where I think we have added about 10% to 15% increase in manpower in the last year. We have added about 30 to 35 scientists in the last 12 months.

Dilip Joshi: And do you expect that sort of run rate of 10% year-on-year to continue given the pipeline visibility and the queries that you are coming your way from various customers?

Sameer Hiremath: I think we are going pretty substantial assize of R&D. I do not think we need to make these big increases anymore. We are pretty comfortable with our business because a lot of business is now moving from R&D to manufacturing. So, lot of capacity in R&D and resources are available for new products.

Dilip Joshi: Just to clarify this figure of Rs. 45 crores so that includes some of the investments that you do on behalf of the customers, but are they not FTE, so the customer reimburses the billing and the material cost, is it not like that?

Sameer Hiremath: We do not do FTE business I mean that is not our business model. It is a project-based FIFO service model where we make a product, we deliver it to the customer, and we get paid for the number of kilograms that we deliver.

Dilip Joshi: And this figure of 45 will include some of that work as well?

Sameer Hiremath: Yes everything is included in that.

Moderator: Thank you very much We will take that as the last question. I would now like to hand the conference back to Mr. Sameer Hiremath for closing comments.

Sameer Hiremath: I'd like to 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, (i.e.) Strategic Growth Advisors- our Investor Relation Advisors. Thank you once again and have a great day and wish you all a very Happy Diwali. Thank you.

Moderator: Thank you very much. On behalf of Hikal Limited that concludes this conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.