August 14, 2023

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

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

Dear Sir/Madam,

Subject: Transcript of Earnings call for quarter ended June 30, 2023

In continuation of our letters dated August 3, 2023 and August 8, 2023 and pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the earnings call held on August 8, 2023, for quarter ended June 30, 2023.

Kindly take the information on record.

Thanking you,

Yours Sincerely,
for **HIKAL LIMITED**

Rajasekhar Reddy Chintakindi
Digitally signed by Rajasekhar Reddy Chintakindi
Date: 2023.08.14 11:28:03 +05'30'

Rajasekhar Reddy
Company Secretary & Compliance Officer

Encl.: As above

Hikal Limited

Q1 FY24 Earnings Conference Call

August 08, 2023

Disclaimer: E&OE. This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 8th August 2023 will prevail.

MANAGEMENT: **MR. SAMEER HIREMATH – MANAGING DIRECTOR,**
MR. ANISH SWADI – SENIOR PRESIDENT, BUSINESS TRANSFORMATION & ANIMAL HEALTH
MR. KULDEEP JAIN – CHIEF FINANCIAL OFFICER
MR. MANOJ MEHROTRA – PRESIDENT, PHARMACEUTICAL BUSINESS

Moderator: Ladies and gentlemen, good day and welcome to the Hikal Limited Q1 FY24 Earnings Conference Call.

This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone.

Please note that this conference is being recorded. I now hand the conference over to Mr. Sameer Hiremath, Managing Director from Hikal Limited. Thank you, and over to you, sir.

Sameer Hiremath: Thank you. Good evening ladies and gentlemen, and a very warm welcome to all of you. We extend our gratitude to all of the participants for attending our Q1 FY24 Results Conference Call.

We trust that you have had the opportunity to view our comprehensive Earnings Release, Investor Presentation, and The Financial Statements for the quarter ended 30th June 2023. These documents can be accessed on both Hikal's official website and the stock exchanges websites. I am Sameer Hiremath – Managing Director, Hikal Limited, and I will be leading the discussion and presenting the financial results.

On this call with me, I have Anish Swadi – Senior President of Business Transformation and Animal Health, Kuldeep Jain – our Chief Financial Officer, Manoj Mehrotra – our President (Pharmaceutical Business) and Strategic Growth Advisors – our Investor Relations Advisors.

FY24 has started off on a challenging note due to global macro-economic pressures and high channel inventories, leading to lower demand across both our businesses. The chemical industry is facing difficulties due to China's opening up and depressed market conditions specifically in the crop protection end use markets. Muted volumes coupled with pricing headwinds and high costs inventories on our customer side impacted top line and profitability in Q1 FY24.

For Q1 FY24, we reported revenues of 388 crores and EBITDA of 50 crores, equivalent to a margin of 12.9%. During the quarter, we witnessed disruptive channel inventory correction across the supply chain in both the businesses. We were able to navigate through some of the market headwinds on the back of improved cost control measures and softening of certain raw material prices and improvement in product mix. We expect it will take another quarter or two for demand in the pharmaceutical business to return to normal. However, raw material costs are softening, which is aiding the sectoral recovery.

Sequentially, we expect the performance to gradually pick up and operating leverage is expected to improve in the second half of the year.

On the crop protection side, there is a high buildup of channel inventory which is adversely impacting the demand supply scenario resulting in price erosion. We expect the inventory situation to normalize towards the end of this calendar year. However, there has been softening of raw material prices which is expected to stabilize and improve the margin profile towards the last quarter of this financial year. To navigate these difficult circumstances, we have implemented various strategic initiatives aimed at cost optimization, reducing procurement prices, and automation-based productivity enhancement. These measures have facilitated operational efficiencies and will stem the macro-economic challenges.

On 22nd July 2023, the company received communication from Gujarat Pollution Control Board, directing the company to cease operations within 15 days at the Panoli site, citing technical violations pertaining to a product manufactured in early 2021 during the COVID period. The company clarified the query made by the Gujarat Pollution Control Board, based on which the GPCB has revoked the closure direction for initial period of three months. And we're hopeful of getting a permanent revocation post that. The company's Panoli facility continues to operate at normal with no interruption in production activities. We are deeply committed to upholding the principle of responsible care and sustainable business practices. Given the current macroeconomic climate, we do anticipate short term volatility. However, we are well positioned for sustainable growth over the medium to long term.

Now, I would like to provide an overview of our Crop Protection Division performance:

The Crop Protection Division achieved a revenue of 163 crores for the quarter and an EBIT of 17 crores which was at 10.5%. The global crop protection industry has been going through a challenging phase for the last few quarters as distributors and end customers are destocking high channel inventories. Additionally, the market is witnessing pricing pressure given the high base of the previous year and aggressive price competition we are seeing from Chinese exporters. However, we are witnessing softening of raw material prices which is partially supporting the margins. We remain committed to enhance operational efficiencies and reducing costs.

Based on an increased marketing effort, we are onboarding several new customers and our strong pipeline of products are under various stages of evaluation and implementation for our global multinational clients. In order to mitigate supply chain risk, we have initiated strategic vendor development, diversified our supplier base and implemented backward integration wherever possible. This guarantees the availability and price stability of various key starting materials and raw materials. Our Panoli multipurpose plant is approaching completion and commissioning has begun. We are presently in the stabilization phase, and it is proceeding according to schedule.

Within our own product segment, we are observing higher than normal inventory levels in the market. And the situation is expected to improve towards the end of FY24. The medium-term outlook for our product is positive as end user consumption continues to grow. As part of our growth strategy, we are in the process of commissioning the new plant I spoke about earlier, and additionally exploring new product opportunities to further expand our business with our global customer base.

On the CDMO front, we continue to receive new enquiries from both existing and prospective new customers, and I've signed on a few contracts in the last quarter. This demonstrates the continued demand for our contract manufacturing and development services. We are focused on capitalizing on these opportunities and enhancing our position amongst our global customer base.

Now, I'd like to introduce Manoj Mehrotra, President Pharmaceuticals, who will provide an overview of the pharmaceutical division performance. Over to you Manoj.

Manoj Mehrotra: Thank you Sameer and good evening, ladies and gentlemen. I will talk about the financials of the pharma business first.

The pharma business reported revenue of Rs.225 crore, EBIT of Rs.10 crores and EBIT margin of 4.4%. Reason for sharp decline in pharma revenue on sequential basis was on account of reduced demand from CDMO customers on account of higher channel inventory. We have witnessed softening of raw material prices which is expected to improve the margin profiles towards the second half of the financial year. Also, we expect the channel inventory situation to normalize, which implies that the worst of the price erosion is likely behind us. In addition to focusing on top line growth, we are also committed to enhancing profitability. We are implementing a variety of measures to enhance cost effectiveness and optimize operational procedures backed by a healthy pipeline of products with better margin profile.

On the API business, we are expecting recovery in demand which is expected to improve sequentially in upcoming quarters. However, the market is experiencing intense competition and high costs inventory in the channel pipeline, leading to pricing pressure. Despite the challenge, we have successfully maintained our market share in legacy products. We are continuously making efforts to strengthen our presence in new regions such as Japan, Middle East and Latin America. Notably, our new product launches in anti-diabetic therapeutic area have gained significant traction among global customers. We have a robust pipeline with 8 to 10 products under development, and our target is to launch 3 to 4 products by the end of FY24.

Going forward, we'll prioritize maximizing API sales by increasing our customer share of wallet, expanding new markets, where we have advantages in terms of backward integration, scale and technology.

On the CDMO business, we are looking ahead with anticipation of normalization of the CDMO industry towards the end of FY24. As we have mentioned before, CDMO is a long-term business that requires time, commitment and patience to establish strong relationships. We maintain a robust pipeline of projects in the CDMO space, and we are in the advanced stages of discussion with several global innovator companies. As mentioned previously, we have two opportunities in phase three of clinical trial, which are progressing as per plan and likely to get commercial in the upcoming years.

As informed earlier, our API facility in Panoli had received a No Action Indicated, NAI compliance status with 'Zero' 483 observations from the US FDA. This achievement reflects our unwavering commitment to maintain the highest standards of quality, compliance and regulatory adherence across all our manufacturing sites. These developments further reinforce our position as the leading player in the industry, known for our strict adherence to quality and regulatory governance.

Now, I would like to introduce Mr. Anish Swadi, Senior President of Business Transformation, who will provide an overview of our business strategy.

Anish Swadi: Thank you, Manoj and good evening to everyone.

First, I would like to discuss the Animal Health business update:

The development of multiple APIs under a long-term agreement with one of our global innovator animal health companies, is proceeding as planned. Our new multipurpose facility for animal health is on track and is currently undergoing commissioning. We are on track to provide the validation batches of the products which are under development to our customer during the next few quarters. These validation batches will act as a first step towards commercialization of the product portfolio. We are also in discussions with several new global innovator customers to provide manufacturing and R&D solutions to them for their current and future portfolio needs in the animal health space.

Overall, to summarize, the long-term prospects will continue to outweigh the short-term challenges. We're continuously working on our transformation journey with promising developments in our new product portfolio and focused area geographies. As part of our project Pinnacle, we have commenced several initiatives which span from augmentation of customer centricity, benchmarking and integrating our business with our ESG principles to enhancement of efficiency in manufacturing, supply chain and operations, to ensure that we have long term sustainable growth.

Maintaining our track record with global regulatory agencies, the recent US FDA audit reaffirms our commitment to upholding the highest standards of quality compliance and regulatory practices across our manufacturing sites. This approval aligns with our diversification strategy of expanding our API capabilities to cater to our global customer base.

Now, I would like to open the floor to Q&A.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Viraj Mehta from Equirus Securities. Please go ahead.

Viraj Mehta: Sir, first question is, if I look at both the, after three decent quarter there is a sequential drop in revenues of both the businesses, can you elaborate how much was volume driven which was due to destocking and how much was realization drop in both the businesses?

Sameer Hiremath: Yes, so for the quarter, if you look at a quarter Y-o-Y, values have grown by as I mentioned too, revenues have grown by 2.4%, volumes have dropped by almost 13% for the quarter compared to the last quarter. If you look at it sequentially, the revenues are down by 29% and volumes are down by 26%.

Viraj Mehta: Okay. So, that's like a very steep drop.

Sameer Hiremath: I would like to make a comment on that. If you look at historically, our quarter one is always our slowest quarter because we take our annual maintenance shutdowns. And this is a time every year our quarter one is our slowest and we always have a sequential step wise improvement quarter-on-quarter, and this year is no different. So, quarter four to quarter one, comparison is not exactly the correct way to compare it, it's not comparable.

Viraj Mehta: Sure. Sir my second question is regarding if I look at improvement in terms of what we saw this quarter, that was the case with a lot of API manufacturers probably Q3 and Q4 of last year, but at some chunk of those companies are thinking with reasonable improvements sequentially, can you talk a little bit about if we are seeing any green shoots or what's the guidance you would like to give for the whole year because you have not alluded to that at all in your opening remarks?

Sameer Hiremath: See, there's a lot of volatility in the market, I'm not in a position to give any guidance. But as I said in the last call as well, we expect a stepwise recovery quarter-on-quarter, and we stick by that. And H2 will always be better, significantly better than H1.

Viraj Mehta: Sure. And sir my last question is regarding gross margin because you said raw material prices have also gone down, is it fair to assume that our realizations will also drop or have dropped. So, how does our pricing model work is it like per kg conversion cost that we get or is it a margin that we get because, like our other expenses like electricity, and personnel expenses that will not go down, but if your top line goes down because of the realization, and your RM also goes down, and if it's a percentage conversation, it will kind of hit your EBITDA, assuming your gross margin remains constant. So, if you can just talk about that a little bit sir?

Sameer Hiremath: Basically you are right, this cost is fixed. So, if the volumes do increase, which we expect to start happening from the second half of this year, then the EBITDA margins will start improving compared to where they are today. From the gross margin perspective, because of softening of raw material prices, our gross margins actually improving compared to the same period last year.

So, once the volumes do start coming back, we are quite hopeful they will come back from H2 onwards. The operating leverage to kick in, and the benefits to start accruing to EBITDA from H2 onwards.

Moderator: Thank you. Next question is from the line of Sajal Kapoor an Independent Investor. Please go ahead.

Sajal Kapoor: I will ask both questions together and would appreciate the detailed response as far as possible, please. Pure play API companies doing complex CDMO and handling difficult chemistry are making 30% EBITDA margins in India. Do you think Hikal can get near such margins in future and if the answer is 20%, or 22%, kind of range being more sustainable operating margins because of the kind of molecules we have, there will always be a China based competition and pricing pressure. That's one, in terms of margins, so 30% possible or not, or whether we believe that 20%-22% is the best we could do in future. That's one and secondly, both Manoj and Anish mentioned advanced discussions with global innovators, in their opening remarks. So, in your discussions with pharma and chemical customers, do you sense the possibility of setting up a dedicated capacities for them, so something like 200-300 KL, or a block itself dedicated to a single customer. Thank you.

Sameer Hiremath: Thanks for that. So, the first question was regarding margins and how we will get, whether you will be in the 20% range or will be closer to the 30% range. If you look at the pharma business for the new projects and the new products, we're getting closer to the 24%-25% up of EBITDA level, my obviously particular blend because of a legacy for us it may come down to 20% odd as a blended. So, our aim is for any new project, we're targeting 24%- 25% EBITDA. And obviously, we'll strive for even better. For the second question was regarding dedicated capacity. We've already done that, with a recent client two years ago, we signed a major long-term contract, where we set up a large facility for them in one of our sites, and it's been involved multiple products. And they've also helped us for the animal health space. And we're seeing similar type of opportunities happen in the human health side as well, and crop as well. So, we have already started doing that, we've implemented one project which is significant on the animal health side, and we'll try to replicate that in our other parts of our business as well.

Moderator: Thank you. The next question is from the line of Pranay Dhelia from Panchatantra Advisors LLP. Please go ahead.

Pranay Dhelia: A couple of questions, one is on the debt front, what is the current debt figure that we have, the repayment schedule and are we on track of it and secondly, last couple of years we've always seen something or the other which has held our company back where, we've had two or three good quarters and something setting us back. So, when can we expect both you could say avenues to fire together, and we see good value being created for stakeholders like us over a good period of time, rather than just getting it in spurts?

Sameer Hiremath: Sure, I take the second question and I'll hand over the debt question to my CFO to answer. So, you're right, till December'21 quarter we were showing and unfortunate incident that set us back a few quarters are now from a macro external environmental scenario, but we are using this time to win lot of new business and put in a lot of operational efficiencies in the organization. So, we are quite hopeful that for the second half of this year, we expect both our businesses to start firing and we get back to the FY22 type of business where our both businesses are firing, and we start getting the businesses to grow again and create value for our long-term investors. I will hand over to Kuldeep to answer the debt question. Kuldeep you can answer that.

Pranay Dhelia: Just before the debt one, one more follow-up, we've had a top line of 2,200 crores in peak and with the new CAPEX that we have done, whatever I could make out, with the asset journey we are expecting a top line of almost 3,500 odd crores in the near future, when do we expect to hit that targets?

Sameer Hiremath: That happens once you reach optimal capacities, that optimal capacity as I said takes two to three years post commissioning of the plant which is still a couple of years away from now.

Kuldeep Jain: So, the debt are concerned we are very comfortable. And just to inform you, we have not borrowed any long-term loan during this quarter and our debt equity is well, well within the standard norms.

Pranay Dhelia: Can you give me a figure what is the long-term debt or term loan on the books and when do we start repaying it. The total debt, long term and short term both.

Kuldeep Jain: We have already started repaying our loans; our term loans are 550 crore and working capital is 240 crores.

Pranay Dhelia: Okay. And when do we start repaying the term loan, the majority of it for the Capex?

Kuldeep Jain: We have already started repaying, some loans we borrowed somewhere in 2019 which is almost, maybe in three years we will be repaying.

Pranay Dhelia: And we are not looking at any new fresh debt for new CAPEX that is going to be all internally funded?

Kuldeep Jain: No, definitely we will certainly look forward for some debt during this year because we have a plan for almost investment of 200 crore in this year. So, it will be 50:50 from the internal accruals and 50% from the borrowings, but we have equally repayment also. So, long term total debt should not change at the end of March 2024 significantly.

Pranay Dhelia: And what is the cost of funds the long term if you could just share?

Kuldeep Jain: Cost of fund has increased, now it's almost 8.5%.

Pranay Dhelia: 8.5%?

Kuldeep Jain: Yes, both together the short term and long term.

Moderator: Thank you. The next question is from the line of Aman Vora an Individual Investor. Please go ahead.

Aman Vora: I really wanted to understand better the macro scenario where we have talked about the destocking. I understood, but the competition from China like what is happening in the market and how aggressive are they and why have realizations dropped so much?

Sameer Hiremath: Manoj while you take the pharma part and then I'll take the crop**.**

Manoj Mehrotra: The pharma realization, the revenue has dropped more I'll say because of inventory with our CDMO customers, if we really see the split between API and CDMO, API is constantly recovering. And if you see the gross margin of Q1 and gross margin over all of last year, we are definitely better. And I'm sure as we go along in the year, the gross margins of API business will continue to grow, and volumes will also come back.

CDMO yes, there are some challenges because of inventory with customers. And as we mentioned previously, the second half of the year, definitely CDMO Customers will also make a comeback, and we will be far better performance in the second half of the year. The second part of competition with China, yes, that competition with China remains as before. And ultimately, they also have to kind of utilize their capacities and make sure that they sell. But a few of our products, we do compete with China, but many of our products basically on the anti-diabetic segments or some of these CNS segment we do not see much competition from China, so it's a mix of factor there.

Sameer Hiremath: Yes. And on the crop side, the Chinese competition is far more severe than the pharma side. Because China was predominantly a lot of outsourcing was being done, a lot of capacity for crop is being created in China. But we again, we see that kind of normalizing in the next one or two quarters, and end product demand and once the season does pick up towards quarter three, we expect demand to start coming back and prices to start normalizing. We are a couple of quarters away, but by second half of this year, end of Q3 or Q4, we expect demand to come back and see our global CDMO clients have also said the same. They have all reiterated their forecast for the second half of the year. So, the off takes will start, pick up will start of volumes.

Aman Vora: Got it. And my second question is, what is the current capacity utilization of our plants at the company level?

Sameer Hiremath: Historically, we used to be about 80%-85%, this quarter it is lower. On the Pharma side, it is about 70%-75%, on the crop side it is slightly lower than that. We're probably in the mid-60s, currently but we'll come back to the 80%-85% level by H2 of this year.

Aman Vora: Got it. And my third question is a little more strategic question where in the last three years from that tanker issue at Mahad to a lot of issues that we faced with pollution control boards. So, that causes a little bit of a issue for the business in the short term. So, as a management how are we strategizing to have lesser instances like these, we come out of them eventually that is very nice, but how do we try to reduce such issues strategically?

Sameer Hiremath: If you notice that, this incident also, recent incidence in Panoli, when we went and gave our explanation to the GPCB, they were convinced, and that's why they gave us a revocation before the closure notice came into play. It was related to a technical matter of 2021, which was bought up because of some other incidents with some other companies with similar products. I don't want to get into the details. But anyway, we convinced, we could technically convince them that there was no environmental damage, and we could get the revocation. So, they were convinced, but unfortunately, this is the way it's done, and we have to live with this, and we have strengthened our systems which we have done significantly that's why we could convince them that there was no issue and we got the revocation within 15 days.

Moderator: Thank you. The next question is from the line of Aditi Sawant from EDM Advisors. Please go ahead.

Aditi Sawant: Sir, as we understand from other agrochemical industry players, that industry should start to see revival from starting 2024. So, what is your outlook for the next 12 to 36 months and what is the update on China plus one strategy?

Sameer Hiremath: Well, we also have the same outlook, second half of this year towards the end of Q3 early Q4 we expect our demand uptick to start. The good news is that all our products end demand is strong and from a medium to long term perspective, this business will continue to grow it's just a little bit of short-term pressure that we are facing for a couple of quarters. The China plus one strategy is very much intact, and we continue to see new enquiries and new customers coming on board all of them are looking at second option to China. And we are benefiting from that and that will only continue going forward. So, the medium to long term, future is still intact, and it still looks very bright.

Moderator: Thank you. The next question is from the line of Aditya Nahar from Alpha Enterprises. Please go ahead.

Aditya Nahar: My question is more long term. So, if I take a 10-year sort of operating profit margin figure, you are almost at 25%-26%, today we are closer to 13%-14%. 10 years is a long enough time to sort of look at the company, we have sort of got stuck with a deteriorating operating profit margin profile, whereas our competition on a general level across the board, where it be pharma and the crop protection and as margins are higher than Hikal. So, just wanted to understand your thinking for the next 10 years, are you okay with that 13% operating profit margin, do you expect it to move up. And even on a PBT level we are sort of, we almost take two steps forward and three steps behind. So, just wanted your comments for the next sort of seven, eight, ten years, are we okay with this, is my thinking incorrect. Just your thoughts on this please. Thanks.

Sameer Hiremath: If you look at, I don't think it's been 12% to 13%, it's been there right now, but if you look at till one year ago it was more than 18%-19% margins. We feel comfortable to get the business back to the 19% to 20% margin levels over the next couple of years, which will come back. And we have delivered on that, and actually no reason why with our new contracts and new product mix. Also, a lot of the legacy products we are phasing them out or were replacing them with newer generation products. Our dependency on our old contracts and our old products is coming down year-on-year. And the new margin product that we are launching and the new contract that we've acquired, despite having certain challenges that we face from the external environment, and customers reaffirming their faith in Hikal and believing in Hikal and being a long-term sustainable company shows that we will continue to grow and improve our margins going forward. And this is a plan, I am not even talking of 10 years, I am talking of next four to five years, we will see a significant uptick in margins, and the operating leverage kicking in as volumes increase. And we'll be able to compete with our competitors and be at the same levels as them over the next few years.

Aditya Nahar: I appreciate that Sameer. It's just that you passed basically every FDA audit, you lost very few customers, if any at all it's just that, that doesn't reflect in your margins. So, everything is fine but the margins that was my question. Four or five years looks like only we think there's a premium to the product, but the margins say another story that was my concern.

Moderator: Thank you. The next question is from the line of Yash Mehta from AP Capital. Please go ahead.

Yash Mehta: I would like to ask a question on the animal health side. What is the status update on the CAPEX?

Sameer Hiremath: Anish, can you take that?

Anish Swadi: So, right now we've invested the capital expenditure into the plant, the plant has been built, we are undergoing commissioning, and we have started validation of the product portfolio. So, that's where we are currently.

Moderator: Thank you. The next question is from the line of Pradyumna Singhania from Rashi Fincorp. Please go ahead.

Pradyumna Singhania: I just pretty much had two questions. My first question is, do you think you can reach last year's top line at least this year considering that there are so many macro headwinds, and stuff like that and we started on a, I know Q1 is seasonally bad. But do you think we can at least reach to 2200 top line this year as well. And secondly you mentioned that our plant utilization was around 70% to 75% for pharma and 65% for crop protection, but you said if your Panoli plant is going to start which has already started, and you're on the stabilization phase and everything, once that comes into operation wouldn't that get your overall utilization lower?

Sameer Hiremath: No, the reason why the utilization is low in quarter one is because of inventory destocking and lower volumes currently, as I mentioned. We expect the volume uptick to start from quarter three onwards. So, the utilization levels of the existing assets will go back to the 80% odd level, which is where we were historically. The new capacities on the animal health and the crop side in our sites which are undergoing commissioning will also start adding to our revenues and our margins from Q3-Q4 onwards. So, that obviously will be a ramp up, but the existing assets which are running at 65% to 75% utilization will go towards 80%-85% level in the next couple of quarters.

Pradyumna Singhania: Okay. So, basically you also said in the start that sequentially you are going to do better do you mean quarter-on-quarter or year-on-year sequentially?

Sameer Hiremath: I mean, quarter-on-quarter.

Pradyumna Singhania: Okay, all right. So, can you also mention the fact that you think you can reach last year's revenue levels this year?

Sameer Hiremath: It's currently very difficult to say because of the volatility in the market, after Q2 we will have Q2 conference call we will be formally in a better position to answer that question, currently it's difficult to talk about that.

Moderator: Thank you. The next question is from the line of Pranay Dhelia, from Panchatantra Advisors LLP. Please go ahead.

Pranay Dhelia: Yes, just a follow up on the CAPEX, Sameer, If you could elaborate how much of CAPEX has already been done in the past two years and how much of it is still lined up and subsequently, the phase of commissioning, as you said probably Q3, Q4 onwards you will see phases of commissioning and gross block being added. So, how much of it is less and how much more you foresee in the future?

Sameer Hiremath: Kuldeep, you want to answer that?

Kuldeep Jain: Yes. So, we have almost capital WIP as on 30th June close to 400-460 crore. So, large part of these two CAPEX which Anish, Sameer mentioned is already over. The trial quantity will start from quarter three, quarter four. So, that's why the CAPEX expenditure cash flow is concerned. The large part is already done, we expect another 100 crores-120 crore in next three quarters.

Pranay Dhelia: You just mentioned some time back that your 200 crore CAPEX lined up for which you need 100 crores of debt and 100 crores in internal?

Kuldeep Jain: Perfectly all right, we have already done in the first quarter.

Pranay Dhelia: Okay, great fine. In which phases do you see this getting implemented and coming into play, like revenue to the company?

Kuldeep Jain: So, as I mentioned this, the large part of the CAPEX has already done, its already grounded. So, validation quantities will start from the quarter three, quarter four, and it will come on to the play.

Moderator: Thank you. The next question is from the line of Nitin Gandhi, from FinQuest Advisors Private Limited. Please go ahead.

Nitin Gandhi: Just continuing the same previous question, can you give some breakup out of this 460 and additional 100 towards which segment animal how much, other units how much and what is the benchmark, which we need to monitor for performance at some asset down or payback or IRR or something for your benchmark when you started the project if you can share, which we can keep monitoring. Thank you.

Sameer Hiremath: Out of the 460 odd crores about 320 to 330 crores on the crop side and about 140 crores is on the pharma side, that is the breakup of the 460 crores. For the asset turn perspective is where we view, how to monitor this. If you look at the asset turn, the expected asset turnover of about 1.3 to 1.4 depending on the type of asset at peak utilization.

Moderator: Thank you. The next question is from the line of Sajal Kapoor an Independent Investor. Please go ahead.

Sajal Kapoor: Just one question I have for you and Sammer or maybe Anish can answer. It’s a longer term, so question is, what kind of Hikal five to seven years out would you be truly disappointed to see based on what you aspire to create as on today. So, for example, if your average consolidated margins on a sustainable basis are lower than 25%, and your sales are below 6000 crores by 2030, would you be disappointed?

Sameer Hiremath: Our targets are significantly higher than that. We believe that we can do a bit better than what you’re saying. We are definitely will be disappointed if we don’t achieve that.

Moderator: Thank you. The next question is from the line of Amar from Alf Accurate Advisors. Please go ahead.

Amar: Just wanted to understand, we were talking about this 3000-crore kind of aspirational revenue number, let’s say in next two years. So, how much is going to come from the existing asset and for other, what is the potential for the existing gross block and what would be the potential for the new gross block?

Sameer Hiremath: Well existing business, 3000 crore is couple of years still. From the current gross block that we have if we improve our utilizations and change in product mix we should be getting closer to about 2400-2500 crore. So, the new capacity were 500 to 600 crores additional.

Amar: Okay. So, the new capacity would be then not more than 1.1 time, 1.2 times that is what you're saying?

Sameer Hiremath: No, you're talking about the next two to three years, because peak utilization will still take three to four years for the new capacity.

Amar: Okay. So, basically, you're saying in two years with existing and the new gross block, we can reach to something around 3100 to 3200 crores kind of a turnover?

Sameer Hiremath: I don't want to give any number or number of years, the target of 3000 crores is a few more years from now.

Amar: Okay. And let's say when you're talking about the improvement in the product mix. So, what should be the potential EBITDA margin for the existing gross block?

Sameer Hiremath: So, historically we were running our business of 18% to 19% and we expect our current gross block to go back to that level and the new projects which will come on stream from next year will be higher than that. So, the blended will go on above that.

Amar: Okay. So, when you say higher than that, that would be in the range of 24% to 25% bracket correct?

Sameer Hiremath: 22% to 24%, 23% in that range. 22%, 23%, 24%.

Moderator: Thank you. The next question is from the line of Aditi Sawant from ADM Advisors. Please go ahead.

Aditi Sawant: Sir, I have two questions. First is, how are we seeing your pricing in the US market end market panning out?

Sameer Hiremath: Okay. Manoj, you want to take that?

Manoj Mehrotra: The US generic market from a pharma perspective is definitely improving and that improves more on the margin side and as I mentioned earlier, because of lower raw material prices. But competition remains intense for US the generic market and that is the reason we are going to other markets also now like Japan, or southeast Asia**,** Latin America. The object is diversifying your geography portfolio and come to a gross margin of 45% to 50% on a API.

Aditi Sawant: Okay, sir understood. And the second question is, can you highlight on your generic business?

Manoj Mehrotra: This was mostly on a generic business what I mentioned, CDMO business is totally different contracts, kind of business which has different dynamics of long-term relationship with the customer.

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

Pankaj Jain: Sir just wanted to check on the raw material price, how has it been trending over the period and do we see it bottoming out?

Sameer Hiremath: Yes, raw material prices has come down but not as much as finished good prices. But there has been some benefit of raw material prices. They have already come down, whether they've come down to the bottoming out, only time will tell, but they are already quite low, and we don't expect raw material prices to go down significantly below where they are today. So, raw material prices are more or less near the lowest, if not the lowest levels right now.

Pankaj Jain: So, this raw material pricing will now happen, and on the margins going forward, will we be able to…?

Sameer Hiremath: Yes, because there will be some margin expansion in quarter three, quarter four, because there's a lag effect as we have raw material and older inventories, so it takes time to convert to finished goods and sell. So, it takes three to four months, there's a lag always. So, from the end of Q2, early Q3 we should start getting some benefits from raw material, as our margins improve.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Hiremath for his closing comments.

Sameer Hiremath: Thank you. Thank you, everyone for joining our quarterly earnings call and for your continued interest in our company. We appreciate your support as we navigate through the challenges of the global business environment. We are well positioned to benefit from the significant opportunities considering the current shift in the global supply chain and the diverse capability built over the period of the past three decades. We are optimistic that the journey of longer-term sustainable growth and improvement in profitability is still very much intact. As we conclude this call, we want to assure you that we are here to address any further questions or concerns. Please feel free to reach out to any of us or our Investor Relations partners, Strategic Growth Advisors and once again, thank you for your participation and support. Have a very good evening. Thank you.

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