Hikal Limited

Q2 & H1FY27

Earnings Conference Call

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MR. KULDEEP JAIN – CHIEF FINANCIAL OFFICER
MR. MANOJ MEHROTRA – HEAD OF PHARMACEUTICAL BUSINESS
MR. RAVI KHADABADI – HEAD OF CROP PROTECTION BUSINESS

Moderator: Ladies and gentlemen, good day, and welcome to the Q2 and H1 FY27 Earnings Conference Call of Hikal Limited. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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

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

Sameer Hiremath: Thank you. Ladies and gentlemen, a very good evening, and a warm welcome to all of you. We extend our gratitude to all of you for your participation in our Q2 FY27 results conference call. We are delighted to provide you with an update on the progress made by our company. We trust that you've had the opportunity to review our comprehensive earnings release, investor presentation and the financial statements for the quarter ended 30th September 2026.

These documents can be accessed on both Hikal's website and the stock exchanges website. I am Sameer Hiremath, Chairman and Managing Director, Hikal Limited, and I'll be leading the discussion and presenting the financial results. On this call with me, I have Anish Swadi, CEO of Animal Health and Specialty Ingredients; Kuldeep Jain, our Chief Financial Officer; Manoj Mehrotra, Head of our Pharma business; Ravi Khadabadi, Head of our Crop Protection business; and Strategic Growth Advisors, our Investor Relations advisers.

I'm pleased to report our performance for Q2 and H1 FY27 with the Q2 revenue standing at INR434 crores with an EBITDA of INR45 crores and a margin of 10.3%. For H1 FY27, revenue stood at INR837 crores with an EBITDA of INR82 crores and a margin of 9.8%. Our revenues, volume and EBITDA have grown compared to last year. However, profitability was impacted to some extent due to higher raw material prices, especially in our Crop Protection business.

Our Pharmaceutical business continued to progress, supported by the recovery in our established API portfolio and sustained execution by increase in volumes in our CDMO business. In our own product portfolio, the legacy portfolio improved both sequentially and year-on-year. New products continue to advance with higher sales expected in H2 as production ramps up.

Customer traction also strengthened across Latin America, Japan and Korea. In addition, regulatory approvals were secured in China and Brazil for 2 products, widening market access and supporting future demand.

In the CDMO business, growth continued through contributions from our new product development pipeline for APIs and intermediates, supported by strong customer relationships. I am pleased to share that our quality remediation program in our Pharma business is well on track, and we have received a Certificate of GMP Compliance from the Swissmedic Agency for our Bangalore facility recently.

This certification reinforces the strength of the quality systems and the remediation programs at our Bangaluru facility. It is an important step in expanding the global reach of our pharma business and creating opportunities with customers in Europe and other regulated markets. Compliance, quality and manufacturing excellence remains central to our longer-term customer partnerships.

For the Crop Protection business, we continued to navigate the challenging operating environment impacted by elevated raw material and energy prices as well as pricing pressure from Chinese competition. Our own product portfolio delivered a year-on-year growth supported by some of our legacy molecules.

The CDMO business continued to focus on strengthening customer relationships and pursuing longer-term programs beginning right from process development to commercial scale manufacturing in custom synthesis and commercial manufacturing.

For that, I'm pleased to share, with a stock exchange release was made yesterday that we have signed a multiyear contract with a European-based global agrochemical company to supply a specialized product to markets worldwide. Commercial launch is expected towards the end of this financial year with volumes anticipated to grow progressively as regulatory approvals are secured across global markets.

This CDMO contract reflects our ability to combine technical expertise, process development and manufacturing capabilities to address complex customer product requirements and support the transition from lab to commercial scale. Our Animal Health business delivered year-on-year growth with contribution margins improved quarter-on-quarter.

Our business for our current products was supported by higher volumes, while the new products under the CDMO pipeline progressed from lab to validation and some into the lab as well. In the Specialty Ingredients portfolio, we achieved an important milestone with the commencement of the commercial production of our new multipurpose facility at Panoli. Our priorities are to progress customer validation approvals, which are well underway and convert the ongoing engagements into commercial sales across key markets.

With demand progressively shifting towards next-generation UV filters and other complex skin care products, we believe this can become a meaningful growth contributor over the medium term. We continue to work towards the targeted U.S. FDA reinspection of our Bangalore facility and are hopeful it happens towards the end of this current financial year.

Successful completion of the regulatory process is expected to support recovery in our pharma business in the regulated markets and accelerate the current new CDMO pipeline. Looking ahead, we remain confident in our growth outlook in H2 versus last year.

We reiterate our full year guidance given in the last quarter for a mid-teens growth in revenue and a substantial improvement in profitability. Now I'd like to invite Kuldeep Jain, CFO, to discuss the financial performance.

Kuldeep Jain: Thanks, Sameer, and good evening, everybody. For Q2 FY27, our revenue reported at INR434 crores, EBITDA at INR45 crores with a margin of 10.3% and PAT at negative INR6 crores. For H127, our revenue stood at INR837 crores, EBITDA at INR82 crores with a margin of 9.8% and PAT at negative INR14 crores. Depreciation charge remains same broadly during the last year.

Capital expenditure stood at INR81 crores incurred towards debottlenecking, inventory, regulatory upgrades and selective capacity creation. Our capital allocation remains targeted with priority given to high return projects aligned with our long-term growth objectives. Elevated raw material prices have impacted, as Sameer has mentioned, our margins this year with key solvents and certain commodity prices increasing sharply by over 100%.

Some of the raw material costs has increased by over 100%. Majority of these increases in our CDMO business, which will be passed on to the customer over the next few quarters. Our growth initiative continues to be financed through a combination of internal accruals and external debt.

As of 30th September 2026, our debt-to-equity ratio stood at 0.52. Now I'd like to hand over this call to Mr. Manoj Mehrotra, who is our President, Pharmaceutical, who will provide an overview on the Pharmaceutical division performance. Over to you, Manoj.

Manoj Mehrotra: Thank you, Kuldeep, and good evening, ladies and gentlemen. For Q2 FY27, the Pharma business reported revenue of INR278 crores, EBIT of INR13 crores and an EBIT margin of 4.6%. For H1 FY27, the Pharmaceutical business reported revenue of INR511 crores, EBIT of INR20 crores and an EBIT margin of 4%. The improvement over Q1 was led primarily by the established API portfolio with the legacy portfolio recovering sequentially. New products continue to progress, and we expect higher sales in H2.

Customer traction strengthened across Latin America, Japan and Korea. During the quarter, we also secured regulatory approvals in China and Brazil for 2 established products, expanding market access and supporting future demand. Capacity utilization during the quarter ranged from 60% to 70% at our pharma manufacturing facilities as we consciously slowed down production to comply with stringent quality standards. This was a strong quarter in compliance. The Swissmedic certification was received.

We have completed 28 customer audits successfully. Our remediation program with the U.S. FDA is on track, and we expect the reinspection by end of the current financial year. Our CDMO business continued to grow, supported by contributions from new products and intermediates

and through deeper engagement with customers. Retentions remained strong across key accounts.

The customer base includes a balanced mix of innovative companies and emerging biopharma customers across the U.S., Europe and Japan, supporting both pipeline diversification and future growth. Opportunities span process development, intermediates, custom synthesis, FTE models and high-potency chemistry with several programs at proposal or RFP stages.

To conclude, we are confident that our H2 performance will be significantly better than H1. Now I would like to invite Mr. Ravi Khadabadi to provide an overview of Crop Protection division's performance.

Ravi Khadabadi: Thank you, Manoj. And good evening, ladies and gentlemen. For Q2 FY27, the Crop Protection business reported revenue of INR156 crores, EBIT of negative INR2 crores and an EBIT margin of negative 1.5%. For H1 FY27, the Crop Protection business reported revenue of INR326 crores and EBIT of negative INR8 crores and an EBIT margin of negative 2.5%. Q2 was a challenging quarter.

Elevated RM prices impacted our margins. Chinese competition kept global prices under severe pressure with customers buying only for immediate requirements. Our legacy portfolio remains the main growth driver with increasing volumes. In CDMO, demand was deferred to H2 and margins stayed under pressure. We are passing on majority of the price increases to the customers.

On a positive note, as Sameer mentioned, we have signed a multiyear contract with a Europe-based global agrochemical company to supply a specialized product to markets worldwide. Commercial launch is expected towards the end of FY27 with volumes anticipated to grow progressively as regulatory approvals are secured across global markets.

Customer engagement in Japan has increased including alternate supply opportunities for existing products. Now, I would like to introduce Mr. Anish Swadi, CEO of Animal Health and Specialty Ingredients, who will provide an overview of our emerging businesses. Thank you.

Anish Swadi: Thanks, Ravi. Good evening, everyone. Animal Health business continued to grow in revenue this quarter. Our existing product portfolio saw an increase in volumes and our new CDMO projects are progressing well. Currently, we have 3 new KSMs under validation for our innovative customer, and we are hopeful to commercialize this in the near future in the upcoming quarters.

The business remains an important growth platform, and we continue to work towards our overall ambition of growing the business to about INR400 crores by FY '30. We currently have 6 products under development under the CDMO pipeline. And over the next 12 months, we do expect to commercialize several of these.

Regulatory progress is on track and the new filing completed during the quarter, we have 9 process patents that have been filed from R&D over the last 12 months. Our long-term contracts with global innovators continues to be an anchor for this business.

Under our Specialty Ingredients business, we have moved from plan to production this year with the commercial manufacturing commencing at our multipurpose Panoli facility. We are now focused on stabilizing the production, progressing customer validations and approvals, converting engagements into commercial deals across key markets.

This opportunity is supported by market trends, including the rising demand for functional Specialty Ingredients and the transition towards next-generation UV filters, which is part of our portfolio. With this, I'd like to open up the floor to Q&A.

Moderator: Thank you very much. We will now begin the question and answer session. Our first question comes from the line of Aman Vora with Premier Capital.

Aman Vora: First of all, congratulations, Sameer, on taking up the role of Chairman and Managing Director. I would start with the performance in 2Q. So first, I'll start with the Pharma business. If I look at the Pharma business, we've reported roughly INR278 crores of revenue. Y-o-Y comparison might not make sense given the base.

But if I compare it versus the second quarter financial year '25, where we had reported INR294 crores of revenue, we are broadly similar in terms of revenue where we were in 2Q F '25. But our margins that we've reported are at 4.6% versus 13.7% in that quarter. So could you explain this 900 basis points of difference that we have on similar revenue?

And even sequentially, if I see the margin improvement looks very tepid. It's just operating leverage that has caught up versus 1Q. So could you just help me understand the margin for the quarter?

Sameer Hiremath: Well, I don't have the Q2 FY25 numbers in front of me, so I can compare it to last year. But I think broadly, if I have to say, contribution margin also has dropped in Q2 FY27 because of some impact of raw material prices and product mix. That's number one. And number two, our fixed cost has increased compared to FY25 because of the U.S. FDA remediation expenses, which was not there in FY25. These are the 2 main reasons. While the revenues are more or less the same compared to FY25, the margins have dropped. And that's the reason.

Aman Vora: Yes. So Sameer, could you quantify the fixed cost because INR12 crores of EBIT versus INR40 crores, that is a difference of about INR28 crores. So it's a very large difference.

Sameer Hiremath: I don't have that working compared to '25, I'm sorry, in front of me. I haven't done it. I don't have that. We can discuss it offline. I'm happy we can get in touch with SGA, our investor advisory firm, and we can share this with you. No problem.

Aman Vora: Okay. So let me frame it this way. normalized EBIT margin of the Pharma business should be in double digit. Is that understanding correct? Like should be more than 10%?

Sameer Hiremath: I think so. Yes.

Aman Vora: Yes. So, we've reported 4.5% this quarter. So if you could help me understand like where are we headed going into the second half, given the fact that the margins remain much below our historical levels. So I understand the guidance of EBITDA growth being 25% that you had shared last year. But if I just put in that numbers also, we had done better in the second half last year also. So could you just explain this bridge? How do we get better sequentially?

Sameer Hiremath: Well, second half is going to be significantly better compared to first half, and that's the way Hikal business has been even prior to FY25, if you look at our historical, because of the nature of our business. And obviously, this year, first half is lower compared to FY25 because of the slowdown in production as you're aware of. H2, we expect to make a recovery compared to H1, and there's going to be a significant improvement in the Pharma business compared to H1 in terms of revenues.

And based on the contributions as well, if you look at the contribution also, we expect the EBITDA to also go up substantially in H2 compared to H1. See there are 2 costs that are going to remain, which are elevated this year, and I think it will remain until end of this year, which is the US FDA remediation cost, which is adding on to our fixed costs, which was not there 1.5 years ago.

That will eventually go away. As I've mentioned in the last call, it's adding almost INR20 crores to our fixed expenses every year from an operating perspective. And it's also added some capex. But let's look at the P&L, it's adding about INR20 crores. If you take that out of the way, then our EBITDA margins at the end of this year will be closer to 17%, 18%, if you remove this INR20 crores.

Aman Vora: Got it. Got it. And just to understand this better, could you share a little bit more details on the CDMO contract that the agrochemical division has received?

Sameer Hiremath: Yes, sure. That's been a very positive development. After several years, we've won a CDMO contract because I think the worst of the crop business is behind us. While margins are depressed due to the current war situation and Middle East crisis, the signing of this contract is for a very niche specialized active ingredient. We've been working on it for almost 3 years now.

We started off with process development, scale up, registration filings. And now the approvals are expected to come through and commercial production will be starting by end of next quarter. So it's not a very long gestation period because a lot of work has already happened in the last 2, 2.5 years. This is a multi-year long-term contract. It is typically evergreen.

These contracts go on for 5, 10 years and beyond. Once you get approvals, they don't change. So we expect this also to be the same. It's a very long-term contract. The launch will be end of this year, but the realistic volumes will come next year.

And we expect peak realization by calendar year '29, early 2030. So not too long, 2-2.5 years, you can go to peak revenue from launch. It's a high-margin business with a contribution margin well in excess of the contribution margin of the current crop division and even higher than the contribution margin of the company, I would say, with a CDMO niche molecule. And the EBITDA will be well in excess of the EBITDA margins of the company. So it's a very revenue and margin accretive CDMO business. It's a very positive thing.

Aman Vora: Got it. And any understanding of the quantum of the molecule as it can be on peak utilization in calendar year '29?

Sameer Hiremath: So I think we should look at margins rather than this thing. I think it will be about INR50 crores to INR75 crores per year, but very high-margin business.

Aman Vora: Got it. Just last one from me. So just to understand where the business is headed. So last year second half, our EBITDA margin was about 18.5%. Safe to assume that second half F '27, we'll at least be able to make that kind of EBITDA margin?

Sameer Hiremath: See, the issue is that the war situation is maybe having some impact. If the war situation normalizes, we should be able to achieve that. But otherwise, it may be 100 basis points here and there, not more than that.

Moderator: Our next question comes from the line of Rohit Sinha with Sunidhi Securities.

Rohit Sinha: So one question is on the remediation cost, just I think I missed out. I just wanted to understand how much cost there was for the first half? And is the cost still recurring for the second half also?

Sameer Hiremath: Annual estimate which was given in the last quarterly call is expected to be about INR20 crores. It may vary up and down quarter-to-quarter, but annualized impact is about INR20 crores. You can divide that by not exactly by 4 quarters but little bit up and down, in that range every quarter.

Rohit Sinha: Got it. And sir, because of this U.S. FDA issue, we have been depended on some of the pharma revenues. If you could help us understand if that would not have been happened, what sort of revenue size we would be doing on a quarterly basis as of now, given some of the new customers who already are in talk with us for the business? Or in other way, once we get this clearance, what sort of quarterly pharma revenue should be added back to our size?

Sameer Hiremath: Yes. See, once the clearance comes immediately, the sales will not start from day 2, but it will start ramping up. On an annualized basis, we expect this impact to be positive by about INR150 crores like-to-like if you take the base level today and if FDA comes back, if you take 12 months hence from today, then we'll be around INR150 crores positive on revenue. That's a top line estimate and our contribution will be about 45% to 46% contribution on that business.

Rohit Sinha: Got it. And sir, on the Personal Care segment, if you could help us understand how much development we have done as of now? And what sort of revenue we could expect in the second

half with, I guess, the margins would be better than what we are doing on a consol basis as of now?

Anish Swadi: Yes. So just to talk to you about the Personal Care, the strategy behind Personal Care is twofold, very similar to our other businesses. What we've done is we've developed a small portfolio of products that we think is niche for the market that we've seen a potential gap in the market. So we've developed that. Those products are currently undergoing validation in the plant.

So they should only be ready in the next couple of months. Post that, we're going to go out and test the market. We already have some indications, but we're going to commercially ramp up that portfolio.

The second broader aspect of this business that we're focusing on is contract manufacturing, where we've actually started some time ago. So we've aggressively gone after several of the anchor customers that we want to bring on board to offer services. And that's going to be very similar to the methodology that we use in crop protection and pharmaceuticals.

More on the pharma lines because of the kind of products we're going after, where we're going to offer CDMO services like early-stage development to commercial validation. And obviously, a lot of those products require global regulatory approvals. So that's going to be what majority of the business is going to end up, I think, in the next 4 years.

The target is that majority of the business is going to be CDMO rather than an own product portfolio. The own products are more to get a flavor of the market to establish ourselves to get our name out there that this is what we do. This is what we can do in terms of chemistry and in terms of quality and compliance.

Rohit Sinha: Okay. And one last question before I re-join the queue. In this new contract, as you said that it would be a global contract. So that customer has business in India as well. I mean our sales would be for India as well as export, both or it will be purely for the export market?

Sameer Hiremath: It's a very niche molecule. It's a specialized molecule. So mostly it is in the export market because the prices are on the higher side. There will be some India sales, but the majority will be in the global markets, in the regulated global markets.

Moderator: Our next question comes from the line of Henil Bagadia with Equicorp.

Henil Bagadia: Actually, starting with the agrochemical division with respect to the new order that we've actually got. So if you give some more understanding, is it in line with the CRDM activity we actually planned because we actually had some plans to have actually a research platform and do something that players are actually doing in pharma to try to replicate that in the agrochem side. Is that the first step towards this particular initiative that we have?

And secondly, with respect to the molecule, as you said, it's specialized and it's got a specialized application too. So with respect to the sourcing, at peak sourcing, do we expect to be in the top 2 or the top 3 supplier list for that particular customer? And is it like a patented molecule?

Or is it like an off-patent? Just from what I understand is, in CDMO, as long as the product is in patent, the players don't mind paying money. But once the product nears the patent expiry, I think the renegotiations happen and I think so the margins also take us dive for the CDMO players.

Sameer Hiremath: Okay. So I'll answer that. Both 2 very good questions. And I'll go to the first one. This is part of our strategy to get involved with the customers early on in the development. So as I mentioned earlier on in this call, we got involved almost 3 years ago with this project. And the first part of the project was to develop the process and the chemistry, provide samples, then scale up the molecule and help them with registration material.

So our technical center in Pune, which is absolutely state-of-the-art and some of the investors did visit in the last quarter, and I invite all the shareholders to come and visit at any time they like, has been a very instrumental part in acquiring this business and developing a very robust, scalable, cost competitive business.

This molecule is a niche molecule. By that, I mean it is something called proprietary off-patent. By proprietary off-patent, it means even though it goes off-patent, because of the niche formulation technology that is applied as a niche application, there is very limited competition in these products. These are niche molecules.

So even though it has gone off patent, we are focused on pricing post patent expiry because it's gone off patent a couple of years ago, and there is limited competition. So we are using our technical competency from our R&D center.

And a very important part is also by backward integrating into the key starting material, which was being sourced by the competition out of Europe. We will be fully self-sufficient in the supply chain also. So that will also help us keep cost of goods and our margins within control. So margins are protected in this contract.

And the customer has already given us a road map for pricing expectations going forward, and that has been baked into our projections, which I have just spoken about. The other part, the second question, can you repeat that, please?

Henil Bagadia: Sir, with respect to the capacity utilization, if you could give some more understanding how much of the capacity utilization will get increased because of this particular molecule? And actually the second part was with respect to the research platform, actually, we actually plan to have a research platform. I think you did allude we have actually worked with the customer for about 2, 3 years. So this is a completely new customer, right? It's not a part of our existing customers that we serve in the agrochemical division.

Sameer Hiremath: No, it's a completely new customer. And it is a niche customer with very focused on this segment of the Crop Protection business. And there's a gap in the market, which this customer is filling and they're looking for high-quality players. And this is one of many projects that we expect to win from this customer and become their preferred supplier and become their #1 supplier in this

product and other molecules as well. That is the aim to build a basket of products with this customer.

Henil Bagadia: Okay. Sir, with respect to the other molecules that we would probably be doing with this customer and also a few other customers, how do you actually see the utilization of agrochem division actually increasing over the next 18 to 24 months?

Sameer Hiremath: Yes. So the strategy in agrochemical is twofold. One is to increase the capacity utilization, which has remained depressed and low because of market conditions over the last couple of years. And B, we are also replacing some of the low-value commodity products with higher-margin CDMO business. So our CDMO business as a percentage of our crop business is increasing year-on-year, and that's a far more lucrative EBITDA accretive business, which will be helping the margins of the crop business go well in excess of 17%, 18% going forward.

Henil Bagadia: Okay. Sir, with respect to the Pharma division, I think we are expecting an FDA visit probably towards the end of the year. If you could give some more understanding how many DMF's could be filed once the FDA completes the inspection or the DMF's will be filed next year for the new products because of the restrictions that we have had.

And I think in the last call, you did allude that we plan to do about 6 to 7 DMF's per annum. So how much from the filing to commercial revenues, what kind of lag do we actually see out there? Because it actually differs from product to product. The specialty product takes more time, the less specialty products takes little less time.

Sameer Hiremath: See, historically, we were doing about 2 products or 3 products from our Bangalore facility. Obviously, because of the FDA warning letter, current new approvals are not being given to us in Bangalore. So we've changed our strategy last year. Just even before the FDA warning letter, we constructed a new pilot plant in our Panoli site a year ago and DMF filings from this financial year have started in Panoli. So we expect to file about 4 products from our Panoli side this year.

If in Bangalore does come back, we expect to ramp this up to 6 to 7 products. Currently, it's about 4 products. And we are hopeful for the FDA to come back and we are getting ready for a reinspection and we can't predict when they will come, but we're working towards getting ready for an inspection towards the end of this financial year.

Henil Bagadia: Okay. Sir, apart from the INR150 crores bump in revenue that you said, the increase in revenues that will come once the warning letter is away, what kind of additional utilization revenues do you see with these new additional DMF?

Because as I did say the second part of my question was for some specialty pharma ingredients, I think the DMF's take a little time from DMF's to the actual commercial revenues. But the non-specialty range, it is a little less. So what kind of lag do we actually see for the revenues to flow in?

Sameer Hiremath: See, but DMF filings have been going on for the last several years. So typically, it takes between 3 to 5 years from DMF filing to launch depending on the state of the product. Is it already expired? Is it near expiry, so on or is very early on. So we take a horizon between 3 and 5 years in what we do from a DMF filing.

Also, very important to understand, we have some approvals pending with the FDA from our Bangalore facility for CDMO business. Once the FDA comes and these material validation quantities have already been supplied to the customer and the customer has already done this filing.

But it is on hold with the FDA because they're waiting for us to clear the re-inspection. Once the re-inspection comes, those CDMO contracts will convert into commercial supply. That will be on top of the INR150 crores that we've spoken about.

Henil Bagadia: Okay. Sir, lastly before I get back into the queue. So the repurpose facility that we actually had for agrochemicals to pharma, is it expected to be on stream pretty soon or it will take some more time to get on stream?

Sameer Hiremath: So that's a very large facility.

Henil Bagadia: No, the Phase I part. Yes, the Phase I part.

Sameer Hiremath: It has already been repurposed. And that is where we've begun the personal care products commercialization which Anish just spoke about. That manufacturing has just commenced a couple of months ago. The second phase, which will be for our human health CDMO and animal health CDMO projects, which will be repurposed by end of next year based on the customer contracts. So that capex is being spent as we speak, the repurposing capex.

Henil Bagadia: Sir, on the Animal Health side, if you could give some more understanding, are we actually focusing on Animal Health side, the kind of margins actually should be a little better because in pharma, when a patent expires, there's 80% erosion of the price, whereas in Animal Health, I think it's been about just 40%, 50% and for some it actually amount to 60%. And with a lot of companies actually focusing more on pet animals versus farm animals.

I think so the margins are even better for a lot of contract manufacturers. So if you could give what is our sweet spot? And are we focusing more on farm animals or more on pet animals? And apart from the 4 top global organizations, are we even helping other organizations to work on the off-patent molecules which they are increasing the supplies for?

Anish Swadi: Yes. So I'll just run you through what we're doing. So look, I think first of all, we're a little agnostic in terms of which category of species we are servicing. So we'll do small animals. We also do large animals in cattle.

So that's number one. We're not focused on any particular segment. The second thing is, you're right in terms of the patent expiration and the price depreciation in Animal Health. And it also

varies depending on the types of products that you have. But mostly, I think you're absolutely right on that aspect.

See, our focus is twofold. It's primarily on the contract manufacturing. So we start pretty early on. So we're not really too affected by the price depreciation post patent expiration, right? Because ours is not truly a generic portfolio.

And we're not focusing on generics because that side of the market is quite, I would say, competitive, right? And it's got a significant number of players, both domestic and in China, right? So we're not really competing on that.

For us, it's more on the higher value-added items, things that start off early in R&D, NCE and CDMO type work. And we're working beyond the top 5 global customers. We have a target list of over, I would say, 40 to 45 customers that we have reached out or shown our capabilities to in some shape, way or form. So that's really what we're doing.

Moderator: Our next question comes from the line of Harshil Parekh with BTH Capital.

Harshil Parekh: My question is specifically related to Pharma segment. So if I look at the long-term EBIT margin trajectory in Pharma, we used to make around 14%, 15% EBIT till FY22. And then our margins have been in mid-single digits. So just wanted to understand, is it driven by price erosion in Gabapentin molecule or is there something else?

Sameer Hiremath: Yes, Manoj, why don't you take that? Manoj, do you want to answer that question, please?

So yes, Pharma margins were higher in '21, '22 because of the big operating leverage which we had at that point of time. Recent past, in last 1 year, what we are seeing because of this U.S. FDA, we are utilizing just about 60% to 70% of our capacity because of various quality control measures what we have put in.

And also in line with what we have committed to FDA, we had to take shutdowns for some of our plants to upgrade. But once we are completing all that, I think we should get back to EBIT margins of 12% to 13% and EBITDA of, say, 18%, 19%. This is basically a short term, I'll say, a setback in the last 1 year. But long term, we'll get back to our historical margins.

Harshil Parekh: Sir, just a follow-up on that. Have you seen severe price erosion in our Gabapentin realizations?

Manoj Mehrotra: No, what happens is, raw material price increase, and then we are able to pass on very often our cost also. So by and large, the contribution margin, Gabapentin is lower than other molecules, but the sheer volumes makes up for it. So we still get gross margin of close to 35% or so against the overall for pharma gross margin of 45%, 46%. So it remains a flagship molecule for us. It's lower than others, but it's still substantial.

Harshil Parekh: And sir, are we backward integrated for Gabapentin.

Manoj Mehrotra: Yes, we buy the starting material from China, but otherwise, we do whole steps within Panoli and Bangalore facility. So we are sufficiently backward integrated and cost competitive as a result of that.

Sameer Hiremath: I'd just like to add on Gabapentin, our share of Gabapentin of our pharma business is dropping year-on-year. So the focus is to move by keeping the Gabapentin base business constant on marginal growth, the focus is to add on new products, which will add to a large chunk of our portfolio, which is a higher-margin business. So even in the own product, the shift is happening towards niche and higher-margin new molecules, which were developed over the last 3, 4 years.

And are being launched as we speak. In the diabetes portfolio, in the gastro portfolio, in the CNS portfolio, in the cardio portfolio. We have a couple of molecules every year we're launching and commercializing. And oncology is a new area that we'll be launching very shortly as well.

Harshil Parekh: So sir, can you give me revenue contribution of Gabapentin versus non- Gabapentin for this quarter?

Sameer Hiremath: We don't share that breakdown, but it is coming down.

Moderator: Our next question comes from the line of Raghuram Kuchi with Bestpals Research & Advisory LLP.

Raghuram Kuchi: Sir, just wanted to get clarity regarding this U.S. FDA issue. How confident are you of when they come up for reinspection, how confident are you of clearing the U.S. FDA hurdle, sir?

Sameer Hiremath: Well, we've done everything possible to get ready. I think Manoj will take that call.

Manoj Mehrotra: Yes. So we have taken a lot of remediation measures. We also had a meeting, face-to-face meeting with U.S. FDA on June this year. They are fully satisfied with the progress what we have made. Also, you see that we have received several other regulatory approvals post FDA, starting with ANVISA of Brazil, followed by PMDA of Japan. Recently, we have got Swissmedic approval also.

And if you really see all these, especially Swissmedic are more or less equivalent to U.S. FDA in the eyes of the customer. And we are quite confident that once they come back, we'll get it cleared. And if you see historically, Hikal has always had a good track record. So this 2025 inspection will be an aberration, and we will never get into this situation again.

Raghuram Kuchi: Okay. And sir, once when we clear this U.S. FDA thing and everything is cleared, like what could be a potential on the pharma side of the business like by FY '30, what revenue could be targeted by them, once this FDA thing is cleared.

Sameer Hiremath: I think we expect growth to return and margins to improve to pre 2024, '25 type of levels. And we expect that double-digit mid-teen growth to continue year-on-year on a CAGR basis. So I mean that will itself will grow the business very substantially in the next 3 to 4 years.

Raghuram Kuchi: This mid-teens growth, you're talking only with respect to the pharma business right and not the entire…

Manoj Mehrotra: Only Pharma.

Sameer Hiremath: Mid-teens, yes.

Raghuram Kuchi: There are projects in the pipeline which can deliver that growth, right?

Sameer Hiremath: Because as I mentioned in the earlier section, there are a couple of approvals that are pending from the U.S. FDA. Once the re-inspection happens, these are CDMO contracts. They will come into play and then the volumes will get ramped up. They're pretty niche APIs and advanced intermediates for NCEs products.

Manoj Mehrotra: Our customer engagement continues, okay? We have a one year letter at this point of time, but our customer engagement, getting new contract and development and R&D, that continues because we ourselves and our customers are confident that we'll come out of it pretty soon.

Sameer Hiremath: We had over 28 customer audits in the last quarter itself. All of them were successful. We also have a second FDA approved site in Panoli, which is not impacted. That is where we we're getting market share of new molecules and new contracts that we're also onboarding.

Raghuram Kuchi: In these projects which we are part of like can we assume that we'll be the primary source or like we're the third or fourth supplier and we are likely to, going forward, we may become a primary source. Is that right understanding or we are already the main supplier to them? How should we understand that?

Sameer Hiremath: We were the main supplier because of the warning letter, we are not the main supplier now. They have a primary source in Europe, which they continue to buy from, but they wanted to move the business to us because we were far more competitive. So once the FDA comes back, we will become the main source.

Raghuram Kuchi: And regarding this animal business, just wanted to understand when you have given this target of like INR400 crores by FY30. Is it from multiple customers? Or is it the main 10-year agreement which we had signed earlier, that single customer itself can generate this revenue or we have multiple customers there?

Anish Swadi: Yes. So we're using a risk-based approach to drive this business. We're not depending on any single customer and/or product. So it's going to be multiple customers, some of which we've secured, some of which we are yet to secure. But we have obviously a pipeline and a target that we've established in order to which for us to work towards. So that's where the number comes from.

Raghuram Kuchi: And sir, I'm not sure whether I've heard it correct properly earlier in the call, you mentioned that these are, which are going to go off patent or you're working on NCEs in the Animal Health? I think I heard it wrong.

Anish Swadi: Yes. We're working on a diverse range of products, everything from early-stage development products, advanced intermediates, NCEs and of course, life cycle extension as well.

Moderator: Our next question comes from the line of Rohit Kumar, PDM Advisors.

Rohit Kumar: Sir, my question is based on our H1 performance, what is your expectation for H2? Are you confident of achieving your guidance, which you shared in Q1?

Kuldeep Jain: Yes. I mean H2 will be significantly better than H1. The reason why I'm saying that with confidence is because the pharma business, the production ramp-up is taking place in Q2 -- Q3 and Q4. Crop Protection, a lot of the CDMO business was deferred to H2. These are secured contracts which we have and production is well underway and capacity is already in place.

So based on these, not only will the top line grow significantly compared to H1, but also the EBITDA margins will be significantly higher than H1. And for that, the management is confident that the guidance given in the last quarterly investor call will be met by the company.

Moderator: Our next question comes from the line of Aman Vora with Premier Capital.

Aman Vora: I just wanted one clarification wherein Sameer, you made that comment that you believe that the worst of the crop care industry is behind. Could you elaborate a bit more on that? And how do you see this business over the next 2, 3 years given the fact that we've refocused some of our plants to the personal care business and generic business has been almost 3, 4 years of very, very weak performance.

Sameer Hiremath: Yes. So by worst, I meant, see, eventually, if the customers do well, then we will do well. This is a very concentrated business where 5 customers contribute to almost 80% of the market by value. Even though China has a very strong presence in the generic side, by value, they are a small percentage, right? So these customers have started to do relatively better.

Their volume growth has come back and the inventory buildup has gone out of the standard inventory. There was a lot of inventory buildup post the COVID situation. So that lasted almost 2, 3 years. And now that is over and genuine demand is there from the end market. While margins are under pressure, but actually volumes are increasing and capacity utilization is increasing.

That is what I meant by the worst is behind us. And winning these projects like the CDMO contract that we won in niche molecules, we believe that the outsourcing is again coming back in the CDMO space in crops. And we will be one of the few players to capitalize on that being a strong legacy company in the CDMO space and crops. So I think pricing will be a challenge, volume growth will help us drive efficiency in the business.

Moderator: Our next question comes from the line of Henil Bagadia with Equicorp.

Henil Bagadia: Sir, with respect to the agrochemical division, I think the big 4 players globally have still flagged the excess channel inventory and also the pricing side issues. So from when do you actually see better days globally coming in? And what impact have you actually seen? Because due to

increase in moisture and dampness, I think so Latin America is increasing in terms of the need for fungicides.

Sameer Hiremath: Yes. I mean there has been definitely a slowdown. It's already because of the weather conditions which have always been there in the crop business. There is El Nino effect this year, for example, the domestic crop industry has not had the best of season this year. So there are always weather impacts.

But what was different in the last 3, 4 years, which had depressed the global crop protection market was twofold. One was very high channel inventory built up due to COVID and post-COVID. And secondly was the continuous dumping of products from China. The dumping of China has continued, but the channel inventory is getting depleted. So actual demand is coming back.

Again, it's product to product dependent. We are not in those very high volume commodity products. We do very niche and medium volume products where we believe more or less, it's a mixed bag, but overall volumes are increasing in the crop business.

Henil Bagadia: Sir, with respect to one of our peers, I think they got a few large molecules under the custom manufacturing facilities from some of the large customers. So based on your conversations with these large customers, because they've, on their calls, they've actually had on restructuring, reducing the cost.

Getting rid of some of the excess channel inventory, not doing some of the products, etc. So based on your conversations, I mean, what new contracts are they looking for towards to developing or to joint developing with us in the new space that they actually been doing?

Sameer Hiremath: I think previous investor also asked this question. The change in the Hikal we are working in the CDMO space is more on this "D" as well. It's not only CMO. So like in pharma, we're getting involved before the product is being launched in the development, in R&D. And we have a couple of NCEs in crop as well, which we are developing the process in R&D center and then eventually commercial manufacturing.

So that is the kind of conversation we're having rather than just doing a tech transfer of a molecule from Europe or from U.S. And a lot of our business is now coming out of Japan. And Japan, there's a lot of innovation happening. And they're getting involved 4, 5 years before launch of the molecule. So, we're involved early on, and we're ramping up the product as we speak.

Moderator: We have no further questions, ladies and gentlemen. I would now like to hand the conference over to Mr. Sameer Hiremath for closing comments.

Sameer Hiremath: Thank you. Thank you, everyone, for joining our quarterly and H1 earnings call and for your continued interest and support. We remain fully committed to executing our strategy with

complete determination and focus. The actions we have taken over the past several quarters and years are laying a very strong foundation for long-term sustainable growth.

And we are confident that our progress will become increasingly visible with each passing quarter to show continuous improvement. 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 us, or our Investor Relations partner, Strategic Growth Advisors. And once again, thank you for your participation, your trust in us. And wishing everyone a very happy Diwali and a prosperous new year. Have a very good evening. Goodbye.

Moderator: Thank you. On behalf of Hikal Limited, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.