



May 18th, 2023

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

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

Dear Sir/Madam,

Subject: Detailed Response to the Report by InGovern, a proxy advisory firm, published on Monday, 15th May 2023 titled "Shareholder Battle Impacting Corporate Performance"

We are issuing this detailed response, annexed herewith as Annexure 1, to the Report by InGovern, a proxy advisory firm, published on Monday, 15th May 2023 titled "Shareholder Battle Impacting Corporate Performance" and the articles published in the print media on Monday, 15th May 2023 based on the report of InGovern.

As elaborated in our response, The Hiremath Family is the promoter of the Company, and from a bare perusal this report it is clear that the same has been made with a view to speculate about and spread false information about the impact of the ongoing legal dispute between them on the Company's performance. The document is a one-sided and an ill informed attempt to damage the credibility of the Company and its management and has been made with the intention of causing gross prejudice to the Company.

Our elaborate response, in **Annexure 1**, seeks to rebut the findings and conclusions in the said report.

This communication is also being made available on the website of the Company at www.hikal.com.

Kindly take the above on record.

Thanking You,
Yours faithfully,
for HIKAL LIMITED,

Rajasekhar Reddy
Company Secretary

Enclosure: As above

Hikal Ltd.

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We deny the unfounded claims made in the study “Shareholder Battle Impacting Corporate Performance” that was released on Monday, May 15, 2023 by the proxy consulting company *InGovern*. The document is a one-sided and an ill informed attempt to damage the credibility of the Company and its management and has been made with the intention of causing gross prejudice to the Company. The Hiremath Family is the promoter of the Company, and from a bare perusal of this report, it is clear that the same has been made with a view to speculate about and spread false information about the impact on the Company’s performance, of the ongoing legal dispute between the Hiremath family and Baba N. Kalyani (BNK) family.

This report shows a flagrant disregard for the truth and accuracy, in addition, to a complete lack of factual support. Its main objective is to stir up unfounded concerns about the Company's corporate performance without any justification. The claims stated in the report seem to be a deliberate ploy to cast a doubt on the Company's business practices and misrepresent the facts to the public at large.

We are unequivocal that the continuing legal battle between the Hiremath and Baba N. Kalyani (BNK) families will have no impact on the Company's overall performance, and its operations. The Company's committed and competent management is unwavering in its dedication to achieving excellence and providing value to its shareholders. The attempt by the report to infer that the dispute has negatively affected the Company's performance is incorrect and motivated.

We advise investors and other stakeholders to trust the Company and its established channels for accurate and verifiable information. The Company's success, record and dedication to ethical business principles speak for itself, and we will not permit unfounded accusations to damage the Company's reputation.

Though the Company is under no obligation to respond to the unfounded charges made in the report, we have chosen to do so in detail. This communication represents our unshakable dedication to sustaining the fundamentals of sound corporate governance, preserving open communication with our stakeholders, and in particular protecting the interests of our minority shareholders.

The Company hopes that adopting this open strategy would reassure our stakeholders, particularly our minority shareholders, that we have their best interests in mind. We recognise the importance of responding to any doubts or worries that may be raised by such erroneous assertions with concise, factual comments.

We are committed to resolving any misstatement that could damage our reputation or jeopardise the confidence our stakeholders have in us. Our commitment to transparency is unshakeable as is our commitment to all our stakeholders, especially our minority shareholders. Vide this communication, we have responded to each issue raised in *InGovern*’s document in-depth with accurate information.

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Background of the Report

Point Wise Response to the Findings in the Report

1. Impact of the legal battle between the Hiremath Family and the BNK Family on the Company's Performance:

The Company does not agree with InGovern's assessment that the ongoing legal dispute between the Hiremath Family and BNK Family is having a negative impact on the Company's corporate performance. The dispute is a private matter between the shareholders, and therefore, is independent of the Company's operations.

Further, as also iterated in the disclosure by the Company to the stock exchanges on 23 March 2023, the Hiremath Family vide the aforementioned suit is seeking specific performance of obligations cast on BNK pursuant to a family arrangement entered between BNK and his parents, whereby the shares of the Company held by Kalyani Investment Company Limited ("KICL") and BF Investment Limited ("BFIL"), both of which are under the control of the BNK Family, were required to be transferred to the Hiremath Family. There are no monetary claims against the Company in the above-mentioned Suit. In view thereof, the Company does not expect any financial implications arising on the company due to compensation, penalty etc. in relation to the above-mentioned suits.

Further, given that the shares of the Company are the subject matter of the suit, there are certain incidental reliefs sought, inter alia, restraining the Company from considering KICL and BFIL as shareholders of the Company, or permitting them either by themselves or through any other entity owned or controlled by the BNK Family to transfer the shares held by them in the Company.

Consequently, in light of the above, since it is abundantly clear that the said dispute is between the Hiremath Family and BNK Family, and that there are no monetary claims against the Company, the management of the Company strongly believes that this dispute between the shareholders, as private parties, is not expected to cause any negative impact or have any contagion effect on the performance and operations of the Company.

2. Management Bandwidth:

It is also alleged in the report that the dispute also puts the Company into an uncertain future with respect to its growth plans as management bandwidth could be severely constrained and distracted given that the Managing Director of the company is a member of one of the warring promoter groups.

As stated above, the dispute is primarily between Mrs. Sugandha Hiremath (sister of Mr. Baba Kalyani) and BNK, since the suit seeks specific performance of obligation cast on BNK, pursuant to a family arrangement in 1994, to transfer shares of the Company to Mrs. Sugandha Hiremath.

The Managing Director, along with the entire management and the professional and well qualified team of the Company, continue to remain fully committed to unflinchingly execute various strategic and tactical plans, in line with the long-term vision of the Company laid down by the Board of the Company. Further, the Company has robust structures in place with a strong professional team. For example, the two businesses (i.e., pharmaceuticals and crop protection) have their own independent heads who are leading the day-to-day operations as well as the future growth initiatives. Mr. Manoj Mehrotra, with more than 35 years of industry

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experience heads the Pharmaceutical business, has been with the Company for over 9 years, whereas Mr. Vimal Kulshresthra with more than 35 years of industry experience heads the Crop Protection business, has been with the Company for over 2 years.

In the last three years the business has witnessed profitable growth, signed large long-term contracts and onboarded several global blue chip multinational customers while maintaining an exemplary regulatory track record from global regulatory authorities which can be seen by the recent successful US FDA Audit at the Panoli, Gujarat facility.

In light of the above, the management of the Company strongly believes that there would neither be any constraint on the bandwidth of the management nor would there be any distraction on the focus of the management, and therefore, there should not be any impact on the performance and operations of the Company due to the ongoing legal dispute.

3. Board of the Company:

It has been prematurely concluded in the Report that there is a need for separation of management of the Company from its ownership, and that the Board of the Company be overhauled due to the long serving tenure of several independent directors and ageing Board.

The above findings and conclusions are, to the least, premature, unnecessary, and counter-productive. The current Board, including its independent directors, is a diverse group of experienced and qualified directors. The Company, being in highly competitive and specialised segments, is significantly benefitted from the continuity, experience, and the qualifications of the existing Board. The long tenure and wisdom of some of the independent directors brings significant robustness to the management of the Company, and any overhaul of the current Board would be counter-productive to the performance of the Company.

The following illustrations of the qualifications of the current Board demonstrate the immense wealth of experience and wisdom from which the Company benefits tremendously:

1. Mr. Jai Hiremath is the Founder and Executive Chairman of Hikal and has over 41 years of experience in the fine chemicals and pharmaceuticals industry. A Chartered Accountant from the Institute of Chartered Accountants in England and Wales, he is a 2002 alumnus of Harvard University, USA.
2. Sameer Hiremath is the Managing Director of Hikal and has over 26 years of experience in technical plant operations, business development and strategy. He holds a degree in Chemical Engineering and an MBA and MS degree in Information Technology from Boston University, USA. He was awarded the award of 'CEO of the Year' by The World Leadership Congress & Awards in 2021.
3. Mr. Kannan Unni, independent director, is one of the pioneers in crop protection with over 55 years of experience in the crop protection and animal health industry, the key segments in which the Company operates. Mr. Unni has worked in multiple capacities in Hoechst, AgrEvo, Aventis Crop Science and Bayer Crop Science Group. He was the Chairman and Managing Director of Bilag Industries, a 100% Bayer Crop

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Science-owned company. Mr. Unni has technical and commercial experience in the agricultural and animal health businesses, having worked in a variety of roles. He is the Chairman Emeritus of CropLife India. He is a graduate in Agriculture and holds a degree in Business Administration from Jamnalal Bajaj Institute of Management, Bombay and a Diploma in Marketing from IMEDE, Switzerland.

4. Mr. Prakash Mehta, independent director, obtained a law degree from Mumbai University in 1963 and had qualified as a solicitor in 1966. He is the Managing Partner at Malvi Ranchoddas & Co, Advocates and Solicitors, a law firm in Mumbai, and brings extensive experience in corporate and commercial legal matters. Mr. Mehta is on the board of several listed and unlisted companies in India.

Lastly, Mr. Prakash Mehta was reappointed with effect from 01.04.2019 with a positive vote of 94.70% of the votes polled and Mr. Kannan Unni was reappointed with effect from 01.04.2019 with a positive vote of 99.90% of the votes polled, in the postal ballot held on 26.03.2019.

Therefore, it is abundantly clear that the current Board of the Company is well-qualified to oversee the company's operations and protect the interests of its shareholders and the aforesaid voting on the reappointment of Mr. Mehta and Mr. Unni clearly establishes that this sentiment is also shared by the shareholders of the Company.

4. Remuneration of the Promoter Group Members:

It has been alleged that the remuneration of the Executive Directors, belonging to the promoter/ promoter group, is not commensurate with the Company's financial and operational performance. This allegation is baseless and based on mere conjecture.

The Company believes that the remuneration of our Executive Directors is fair and reasonable, and that it is aligned with the company's performance and the profit growth for the Financial Year 2021-2022. Further, the Remuneration Policy is approved by the Nomination and Remuneration committee, which consists of 4 independent directors of the Company out of the 6 members, others being Mr. Jai Hiremath and Mr. Baba Kalyani, in compliance with Section 178 of the Companies Act, 2013 and Regulation 19 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

The Remuneration Policy is based on a number of factors, including the executive director's qualifications, experience, integrity and performance.

Further, the overall managerial remuneration of the Executive Directors, who are a part of the promoter/ promoter group, being within the statutory and regulatory limit for managerial remuneration, is also approved by the shareholders of the Company by way of a special resolution.

Lastly, it has been falsely mentioned in the report that Mr. Anish Swadi, who has 25 years' experience and has completed the MDP program from Wharton University, USA drew a remuneration of INR 4.43 Cr in FY 21-22. The said statement is factually incorrect and the company is at a loss to understand where the numbers have come from.

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5. Performance of the Company:

It has been observed, with a premature lens, that the Company has had a moribund sales growth and has decreasing operating profits and net profits. Further, the report alleges that RoEs have been contained and that sales growth has slowed. The report also suggests that the Company has not focussed on R&D, and that new product introductions and process yields are much slower than industry leaders. Therefore, as the report alleges, challenges the competitive edge of the Company.

In response thereto, the Company rebuts the aforementioned allegations and responds as under:

- The Compounded Annual Growth Rate of profits for the last 3, 5, and 10 years is higher than the Revenue growth which indicates that the management is working towards operational excellence rather than a superficial growth in terms of revenue only.
- The performance of the Company for 12 months has improved significantly quarter on quarter, and that the stock price of the Company has outperformed the negative profit growth, indicating better performance of stock price and positive perception of investors on the future outlook for the Company. This also indicates confidence of investors in management's growth strategy. Further, the RoE of the Company has been increasing consistently.
- In terms of R&D, the Company has been investing 3.5% - 4% of topline in R&D which is amongst the best in the industry. Further, the Company has introduced 14 new products over the last 3 years which is in line with the company's strategy and amongst the best in the industry.

6. Environment Pollution, and Cases against the Managing Director:

It has been alleged in the report that the Company was "responsible" for a major environmental pollution through the illegal discharge of chemicals for which the National Green Tribunal ("NGT") instituted an investigation. Further, it has been incorrectly alleged that Mr. Sameer Hiremath had been arrested in relation to the above for the death of six laborers.

In response thereto, the Company clarifies and lays down the factual position as under:

- The Company is not responsible for the incident and the same is, prima facie, observed by the Hon'ble Gujarat High Court, while granting bail to the senior employees of the Company. The Court has remarked that the Company has fulfilled all required compliances and the default was committed by Sangam Enviro Private Limited.
- NGT, New Delhi bench has taken up this matter on a suo-moto, basis, even without having jurisdiction on the matter. The Company has challenged, by writ petition, the jurisdiction of NGT, New Delhi, before the Hon'ble Bombay High Court. While this writ petition is pending, the High Court has stayed the order dated 24.03.2023, of NGT, New Delhi.

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- It is pertinent to clarify that Mr. Sameer Hiremath has never been arrested in this matter, as incorrectly reported by some newspapers. He had preferred 2 Anticipatory Bail Applications before the Surat Sessions Court in Gujarat in relation to the FIRs lodged in the above-mentioned incident. The Court finding merit in his plea had granted him anticipatory bail on 16 May 2022 and 18 May 2022 in both the matters and as such, there arises no question of arrest. He has attended the offices of concerned investigating authorities as required and co-operated with the investigations.
- The Company has made adequate and timely disclosures to the stock exchanges on this issue and the same have been hosted on the website of the Company also. The allegation about non-disclosure made in the report is wholly without merit and baseless.
- The fact that International Finance Corporation (IFC, part of the World Bank Group) completed its commitment to invest up to US \$50 Mn via a long term loan in November 2022 for a multi-year sustainability initiative driven CAPEX program entailing several projects spread across various business segments and production facilities to be implemented over the next 2-3 years reposes the confidence in the growth prospects of the Company, clearly suggesting that the above issue is entirely discounted by international investors on the basis that the said issue is totally baseless.

In Conclusion

While there are various other factual inconsistencies and incorrectness in the said report, the above response seeks to address and refute various points raised in the report substantively. As can be seen from the above response, the said report is based on a combination of selective misinformation and baseless assumptions to arrive at premature and unsubstantiated conclusions about the future corporate performance of the Company, and attempts to discredit the management and corporate governance based on certain allegations which are in the realm of surmise and speculation.

The Company reiterates that the current legal suit between the Hiremath Family and the BNK Family is at a shareholder level, and this suit is not expected to cause any impact to the Company and its performance. The management and the Hiremath Family continue to remain fully committed to continue to work relentlessly and unwaveringly to create value for our stakeholders, especially our minority shareholders, as already demonstrated by a strong track record of value created for all our stakeholders, backed by robust corporate governance.

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