August 13, 2025

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, 2025.

In continuation to our letters dated July 31, 2025 and August 07, 2025 and pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the earnings conference call to discuss the financial and operational performance for the quarter ended June 30, 2025, held on Thursday, August 07, 2025.

Kindly take the information on record.

Thanking you,

Yours sincerely,
for **HIKAL LIMITED**

RAJASEKHAR REDDY CHINTAKINDI
Digitally signed by RAJASEKHAR REDDY CHINTAKINDI
Date: 2025.08.13 15:10:31 +05'30'

Rajasekhar Reddy
Company Secretary & Compliance Officer

Encl.: As above

Hikal Limited

Q1 FY26 Earnings Conference Call

August 07, 2025

E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 7th August 2025 will prevail.

MANAGEMENT: **MR. SAMEER HIREMATH – VICE CHAIRMAN AND MANAGING DIRECTOR**
MR. ANISH SWADI – SENIOR PRESIDENT AND HEAD OF BUSINESS TRANSFORMATION
MR. KULDEEP JAIN – CHIEF FINANCIAL OFFICER
MR. MANOJ MEHROTRA – PRESIDENT, PHARMACEUTICAL BUSINESS
MR. VIMAL KULSHRESTHA – PRESIDENT, CROP PROTECTION BUSINESS

Moderator: Ladies and gentlemen, good day, and welcome to the Q1 FY '26 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 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 once the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing "*", then "0" on your touch-tone phone. Please note that this conference is being recorded.

With this, 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. Ladies and gentlemen, good afternoon, and a warm welcome to all of you. I extend your gratitude to all of you for participating in our Q1 FY '26 Results Conference Call.

We are pleased to provide you with an update on the progress made by our company. We trust that you have had the opportunity to review our comprehensive Earnings Release, Investor Presentation and the Financial Statements for the quarter ended 30th June 2025.

These documents can be accessed on both Hikal's official website and the stock exchanges website. I am Sameer Hiremath – Vice Chairman and Managing Director of Hikal Limited, and I will be leading the discussion and presenting the financial results.

On this call with me, I have Anish Swadi – our Senior President & Head of Business Transformation; Kuldeep Jain – our Chief Financial Officer; Manoj Mehrotra – our President (Pharmaceutical Business); Vimal Kulshrestha – our President (Crop Protection Business); and Strategic Growth Advisors, our Investor Relations advisers.

Q1 FY '26 marks the continuation of the challenging industry environment, characterized by global overcapacity, intensified price pressures and demand volatility across core markets. The chemical and life science sector continues to experience uneven recovery with pricing compression in select geographies, especially from Chinese competition. Tariff shifts and procurement variations due to trade realignments further complicated the external landscape leading to a muted first quarter.

In this quarter, Hikal reported consolidated revenue of Rs. 380 crores and EBITDA of Rs. 25 crores. Our consolidated performance was impacted primarily due to the deferment of shipments in our Pharmaceutical Business. Our Pharmaceutical Business saw 11.7% revenue degrowth on a year-on-year basis on account of delayed offtake from key anchor customers. During the

quarter, the US FDA issued an official action indicated OAI status to our Bangalore facility following the inspection in February 2025. We want to assure all stakeholders that Hikal has taken this matter seriously and has already implemented comprehensive corrective and preventive actions in line with the agency's observations.

These observations were procedural in nature and did not include any issues on data integrity. We have submitted a detailed response update outlining these actions and remain in active communication with the US FDA. We are working diligently to ensure full compliance and alignment with all regulatory expectations. We continue to uphold the highest standards of quality and remain committed to strengthening our regulatory systems and culture.

We did have some positive news during the quarter. GMP audits at our Bangalore API facility by two global regulatory authorities, ANVISA in Brazil and PMDA in Japan were successfully concluded. This reinforces our regulatory credentials and positions us well for future growth in key Latin America and Japanese markets. This is in line with our current strategy to derisk our market concentration in view of the uncertainty in the ongoing tariffs.

In the CDMO segment, the pipeline remains healthy, and we are engaged in multiple projects with global innovator customers. Most of these are in the early to mid-development stages. Commercial revenues is expected to happen towards the end of this financial year.

The crop protection business continued to maintain a stable trajectory, largely driven by sporadic global demand in specific segments and while having persistent pricing erosion from oversupplied markets. Revenue remained largely flat on a year-on-year basis. Despite this, we maintained operational efficiency through tighter cost controls and process optimization. We anticipate a gradual volume recovery in the second half of the year as seasonal demand picks up across global agrochemical markets.

In summary, while Q1 FY '26 reflects a slow start and a negative start to the financial year, we remain confident of delivering on our yearly guidance, which we spoke about in the last investor call. We expect performance to improve meaningfully in the second half of the financial year with Q4 being the strongest quarter of the year, led by enhanced plant utilization, increased offtakes and new product commercialization.

Now, I will hand over to Kuldeep Jain – our CFO, who will provide an overview of financial performance.

Kuldeep Jain: Thanks, Sameer. And good afternoon, everybody.

Let me now walk all of you through the ‘Financial Performance’ of Hikal for the Q1 FY 2026 and share ‘key ‘Updates on our Financial Trajectory, Capital Allocation Priorities and balance Sheet Strengthened’.

For Q1 2026, our consolidated revenue stood at Rs. 380 crores compared to Rs. 407 crores in the corresponding quarter of the last year. This reflects the impact of continued softness in select product categories and deferred offtake from key anchor customers, particularly in the Pharmaceutical division, partially offset by stable performance of our crop protection.

EBITDA stood at Rs. 25 crores with an EBITDA margin of 6.5% as against 14.3% in Q1 FY 2025. The margin compression was largely driven by under absorption of fixed costs, less favorable product mix, and lower capacity utilization in a few manufacturing blocks on account of scheduled maintenance shutdowns.

Depreciation and finance costs for the quarter were Rs. 39 crores and Rs. 17 crores, respectively. The cash profit for the quarter stands at Rs. 16 crores. During the quarter, we improved our working capital utilization, resulting into a positive free cash flow of Rs. 15 crores.

Our CAPEX for Q1 FY 2026 was Rs. 31 crores, primarily towards the debottlenecking, regulatory upgrades and CDMO capacity augmentation. We are maintaining our full year CAPEX guidance of Rs. 200 crores and remain disciplined in allocating capital towards high ROI projects aligned with our long-term growth strategy. Our debt equity ratio remains stable at 0.54. Our balance sheet and cash flow remain strong.

Now, I would like to hand over to Vimal, who will provide an overview of crop protection division performance. Over to you, Vimal.

Vimal Kulshrestha: Thank you, Kuldeep. Good afternoon to all the participants of this Earnings Call.

The global crop protection industry continued to face uneven recovery in Q1 FY '26. This is led by persistent overcapacity and aggressive price competition from China. Despite these market challenges, we at Hikal have remained focused on disciplined execution, prioritizing operational efficiency, product mix optimization and strategic customer engagements.

During the quarter, our crop protection revenue stood at Rs. 178 crores with EBIT at Rs. 17 crores, largely flat on a year-on-year basis. Margins remained under pressure as pricing pressure continues due to oversupply in the global system. The performance is expected to remain stable during the year on an annual basis.

Adding to the industry level pressures, global innovator customers in the Crop Protection segments are undergoing significant strategic shifts. This includes portfolio realignment, business segment restructuring and the pivot towards next-generation innovation platforms. This alignment is influencing procurement patterns, contract timelines; and in some cases, impacting commercial decisions across the value chain.

While this presents near-term volatility, it also opens up longer-term opportunities for differentiated partnerships, co-development programs and supply chain localization. In addition

to crop protection, we are also making major progress in personal care and specialty chemical space. In line with our broader diversification strategy, during the quarter, we continued to deepen engagement with global customers for innovation-driven cosmetic and personal care ingredients, supported by our capabilities in complex chemistries and sustainable manufacturing.

The response has been encouraging from customers with early success as we have received multiple RFPs. This segment remains an emerging growth lever, and we are focused on building a differentiated product portfolio aligned with evolving customer and regulatory expectations. Accordingly, we have intensified engagement with strategic accounts, realigning our technology pipeline to reflect customer prioritization and focused R&D efforts on developmental molecules that align with innovation-led demand.

We continue to maintain a healthy development pipeline of eight projects. Our R&D team continue to play a pivotal role in accelerating these projects and delivering with innovation. In terms of cost control, we have implemented several initiatives across procurement, energy optimization and yield improvements, helping us protect contribution margin in an aggressive pricing environment.

In summary, while near-term market dynamics remain fluid, our fundamentals in Crop Protection business remain intact. We are confident that the strategic choices we are making today, both in terms of portfolio and operational excellence, will enable us to deliver profitable, sustainable growth as the industry rebalances.

Now I would like to hand over to Manoj, who will provide an overview of Pharmaceutical Division performance. Over to you, Manoj.

Manoj Mehrotra: Thank you, Vimal, and good afternoon, ladies and gentlemen.

Let me now walk you through the performance of our Pharmaceutical Division for Quarter 1 FY '26.

During the quarter, the Pharmaceuticals Segment recorded revenue of Rs. 203 crores and EBIT loss of Rs. 27 crores. Customer offtake patterns were impacted in part due to the recent US FDA OAI status at our Bangalore facility. This has led to a degree of volume deferral from the first half to the second half of the fiscal year. Margin realization was impacted by lower volumes and changed production mix. Our profitability was affected by lower operating leverage. However, based on our current visibility and the pace of engagement with customers, we do not anticipate an impact on overall revenue and margin performance for FY '26.

Now, I would like to give an update on our regulatory compliance:

A major milestone this quarter was the successful completion of CGMP audits at our Bangalore facility by two global regulatory agencies, ANVISA. Brazil and PMDA Japan. This reaffirms

our regulatory credibility and significantly enhances our access to key Latin America markets and the strategic Japanese market.

I would like to reaffirm our unwavering commitment to compliance and quality excellence, as Sameer mentioned earlier. The OAI status received by our facility post the US FDA inspection is being addressed through a structured time-bound remediation program. We are working closely with regulatory experts to ensure that the corrective and preventive action, which is CAPA, meet the highest standards of global regulatory expectations.

We have till date completed majority of the corrective actions, and we expect the remaining balance to be closed out before end of this quarter. We have kept the US FDA appraised of the progress on a regular basis. For our API business, we demonstrated volume degrowth on a Y-on-Y basis, driven by shift in offtake patterns from anchor customers and product mix. We have seen particular traction in certain markets where our long-standing portfolio is complemented by growing market share in select molecules.

Our product development pipeline remains strong with eight to nine molecules currently under development, and we remain on track to launch two to three new products annually in line with our medium-term road map. As part of our risk mitigation strategy, we are progressing towards dual-site validation for all our critical APIs.

Our CDMO business continues to benefit from the structural momentum driven by the China-plus-one strategy, which is reshaping the global outsourcing landscape. We are observing a sharp uptake in our early-stage RFPs, particularly in high-value small molecule and advanced intermediates. This demand is being driven by global innovators and emerging biotech firms who are looking to diversify their development and manufacturing away from single region dependencies.

While commercial scale-up timelines remain staggered, the volume and quality of engagements have significantly improved. We are currently working on various CDMO projects, of which a few are transitioning from early development into pilot scale. In the food and nutraceutical ingredients, we are on track to gain scale and expect it to reach peak output over the next 18 to 24 months. We are working towards further expanding our product portfolio in this segment. Our initiatives in this segment are progressing well. Separately, the key starting materials being manufactured for global innovators have advanced into Phase III clinical trials, and we expect this to translate into commercial launch by FY '27.

To support this momentum, we are investing in enhancing pilot-scale capacities and dedicated project management teams for CDMO clients. These enablers will allow us to better serve early-stage programs and establish ourselves as a long-term strategic partner. On the overall Pharma business outlook, the API volumes are expected to improve, supported by regulatory approvals coming through across geographies and increased penetration in semi-regulated markets. In

CDMO, while near-term visibility remains tight, the pipeline is robust and diversified with engagements growing in both volume and technical complexity.

We have completed several customer orders during this quarter. Our near-term focus remains on improving contribution margins through cost productivity, scaling differentiated API projects in both segments, strengthening customer partnerships through compliance, quality and responsiveness, as well as enhancing regulatory readiness for new markets and molecules.

Now, I would hand over to Anish, who will provide an overview of our business strategy.

Anish Swadi: Thanks, Manoj. And good afternoon, ladies and gentlemen.

First, I would like to discuss our Animal Health business. Our Animal Health business continues to make steady strides both operationally and strategically. Under our long-term supply agreement with a global Animal Health innovator, the development and validation of the API portfolio is progressing as planned. Several more products are currently in the validation pipeline and commercial filings are underway for multiple markets. We expect commercial launches in FY '26 and beyond. We are also taking a step further with two complex chemistry molecules that are moving to the development phase.

Our relationships with several global innovators spread across the US and Europe in the Animal Health segment have been built over the last several years based on reliable delivery, technical collaboration, which continues to strengthen further. We are increasingly positioned beyond just a manufacturing partner driven by innovation and our proven track record in complex synthesis, compliance and agility in process development. We are now focusing on expanding our footprint with Tier 2 innovator customers, the biotech segment and the own product portfolio focused on several key geographies. This will further provide diversification to the Animal Health business and act as one of the key growth levers in the long run.

Turning to our Project Pinnacle, which is our enterprise-wide transformation initiative:

We continue to make disciplined progress in reorienting Hikal for the long-term sustainable value creation. Well into its execution phase, the program is delivering measurable outcomes across critical levers, including supply chain resilience, digital modernization, operational excellence and ESG integration. A core pillar of our strategy under Project Pinnacle is the diversification of our businesses across multiple dimensions, spanning end markets, customer segments, geographies and product portfolios.

We are actively expanding our footprint in high-growth regions such as Latin America, among others, and increasing our presence in differentiated chemistries and deepening our participation in adjacent verticals such as the Animal Health business and specialty chemicals. This multipronged diversification approach is designed to structurally derisk the business by reducing reliance on any single market or segment while enhancing our ability to navigate external

volatility whether regulatory, geopolitical such as tariffs or macroeconomic. Project Pinnacle is central to our ambition of building Hikal into a more resilient, innovation-led and globally competitive platform, well positioned to capitalize on emerging opportunities across the life sciences value chain.

In summary, although we have hit a slight hurdle in our Pharmaceutical Business, it is expected to recover in the second half of the year. Global prospects for all our businesses remain strong. We remain optimistic about the road ahead. We have focused initiatives on reducing costs and streamlining operational efficiency. Our geographic and product diversification is reducing concentration risk and reinforcing our ability to navigate global headwinds.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question comes from the line of Dhrumil Wani from Girik Capital. Please go ahead.

Dhrumil Wani: Thank you for the opportunity. This is Dhrumil this side. So, a couple of questions. So, first on the agrochemical. Recently, there are some media reports suggesting some increase in the prices of the agrochemical by Chinese supplier and also the Chinese policy of not operating at such lower margins across various industries. With this in mind, do you see any positivity and would like to change your outlook for the year? So, last quarter you had a flattish growth outlook for agrochem. But given this scenario, for example, mancozeb prices has been increased and a couple of other molecules also. So, any comment on that?

And on Pharmaceutical, it has mentioned in the press release that there has been some deferment or the lifting of the orders by clients in CDMO and API division. And you expect recovery in Q2 and then going forward. So, what are the actions the customers are taking? Are they sending their team to check the plant and be satisfied? And by when and how will they increase the offtake? And also, what is the deadline for us to submit the report to the USFDA? I think in last conversation was some September, October. But if you can just revisit the deadline that by which as investors can find that beyond there would not be any negative surprises coming. These are my two questions.

Sameer Hiremath: Sure. So, I will let Vimal take the crop section and Manoj can answer the Pharma part.

Vimal Kulshrestha: Yes. So, in China, I mean, there are news that some products slight price increase is there. But by and large, prices are flat. And based on that, we anticipate flattish revenue growth for the crop protection division.

Dhrumil Wani: Okay. And what about the inventory situation at the end client level? Is that easing off because the numbers what the other companies are reporting are good so far?

Vimal Kulshrestha: So, in some pockets it is improving, in some pockets still customers are holding high inventories. And they expect to rationalized inventory in the second half of this year.

Dhrumil Wani: And what's the exposure to Brazilian market?

Vimal Kulshrestha: For us, I mean, it is not very high.

Dhrumil Wani: Understood, yes. Thanks. And the Pharma bit?

Manoj Mehrotra: Yes. On the Pharma part, we received the OAI status from US FDA towards the end of May. So, that does mean that the customers do their own risk assessment. So, many of them did it virtually, some of them decided to come over to Bangalore and see for themselves. So, that process takes around six to eight weeks, and most of our customers have completed that their own risk assessment. And they have found that everything is in order, whatever corrective actions we are taking. It does not give any risk to their products. The shipments have restarted now. And over the next two quarters, we will be able to cover up the setback what we had in Q1.

Coming to the corrective action, we have corrected almost 75% to 80% of the CAPA which we have taken in our first response, followed by the updated response. By end of September, we will be finishing all our corrective actions. And we are in regular touch with US FDA and giving them a monthly progress update. The last one was given as recent as July 31, which is just a week back. We hope to hear from them by end of August on our responses.

Dhrumil Wani: Okay. And the entire cost of these corrective measures, has it been expensed completely on the P&L in this quarter?

Manoj Mehrotra: Many of it is a little ongoing, that is on facility upgradation and quality control upgradation. So, that is ongoing and there is some bit of capital expense, not much of P&L impact.

Dhrumil Wani: Okay. So, there's no P&L impact of this, because I think in last conversation there was Rs. 10 crores, Rs. 12 crores.

Sameer Hiremath: Let me explain. We have hired these consultants so that we expect Rs. 10 crores to Rs. 12 crores impact for this year, almost 50% has come in, in the first quarter. And we expect it to continue for Q2 and Q3 as well.

Dhrumil Wani: Okay. So, around Rs. 5 crores is on the P&L?

Sameer Hiremath: For this quarter, that's right.

Dhrumil Wani: Yes, its expense from the P&L.

Sameer Hiremath: That's right. In the other expenses, yes.

Dhrumil Wani: In the other expenses, okay. So, this year-over-year fall of around Rs. 23 crores in our Pharma business, so this gap is of this low offtake, and the growth also has been postponed, right? That's the bridge, right, the revenue bridge?

Manoj Mehrotra: Yes, shipments have been deferred. So, that will be recovered in the next two quarters.

Dhrumil Wani: Okay. So, they would be adjusting the inventory at the customer end by purchasing it from some other customer or they have a buffer, and they are okay with this deferment?

Manoj Mehrotra: Most of them have a buffer, the big ones have a buffer. So, no orders have been canceled for us due to this OAI status.

Dhrumil Wani: Okay. And can you reiterate your guidance for the year, what was it?

Sameer Hiremath: We had given it last time, crop protection was flat and Pharma we expect it in low-teens growth.

Manoj Mehrotra: Yes, 12% to 14%

Sameer Hiremath: 12% to 14%. Revenue growth, yes.

Dhrumil Wani: And margins.

Sameer Hiremath: EBITDA margins will improve slightly more or less in the Pharma business, crop will be about flattish.

Dhrumil Wani: Okay. Thank you very much.

Moderator: Thank you. The next question comes from the line of Henil Bagadia from Equicorp. Please go ahead.

Henil Bagadia: Thank you for the opportunity, sir. Sir, I have some clarification based on the previous participant. Sir, what is the revenue loss that we see due to the deferment of orders? And once you said that the orders are fine and the shipments have started, so we have not taken any one-time inventory markdowns due to any quality or any possible suspect from the end of customers, right?

Sameer Hiremath: No, there's nothing wrong.

Henil Bagadia: And what would be, I mean, the revenue loss because, I mean, there has been a --

Sameer Hiremath: Yes, I will take that. So, it's not a revenue loss, it's a revenue deferment, which is about Rs. 50-odd crores in the first quarter, which is getting deferred to Q2 and Q3.

Henil Bagadia: Okay, sir. Sir, I actually had a question related to the Animal Health plant. Sir, we have commercialized the plant in FY '24, I guess, the third quarter of FY '24. So, usually in the Pharma and chemical industries, I mean, the sooner we commercialize the plant, the better it is. And usually, people have three, four or max to max or a five-year cycle to which they actually get to optimum utilization for good paybacks and IRR and returns. So, we have not commercialized it, I mean, it's almost two years and we have not commercialized it still, and we are still waiting for more validation.

So, I mean, when do we actually expect the commercial runs? And how has been the returns since we have not commercialized for the next two years? And also, how do you see the situation on the spec chem plant that you just recently capitalized? I mean, what kind of payback you see there? How fast do you want to commercialize and get into actually commercial batch orders and ramp up the digitalization?

Anish Swadi: Yes. So, I will take the first question. When we say commercialize the plant, we had a portfolio of products. So, when we started in late FY '24, we started with validating a few products. And all through this last 12, 14 months, we have been validating the products. Once the first original products have been validated, now they are going through commercialization. So, it's not correct to say that the plant is not commercialized, it's not for a single product. As we finish the last validation that we have coming up in the next quarter, all products will be validated through the plant and commercial quantities will thereafter start between 12 to 14 months post validation. So, we are supplying small commercial quantities already for the products that we had validated originally in late 2024, right?

Henil Bagadia: So, that would be test batch quantities and it won't be a significant part of the revenue, right?

Anish Swadi: No, they are starting out small where they change. Basically, they have some inventory on hand from their original suppliers, so that inventory they are going to stop. And then from 20:80 it's going to become 80% us and 20% the second source supplier.

And your second question regarding the specialty chemicals. So, what we have done is, basically the growth rate that we see in Pharma is surpassing that what we see currently in the crop protection business. So, what we have done is we have taken that spec chem plant and we have converted partly into Pharma and Animal Health for future business that we have backed by contracts. So, we expect that currently what we are doing is we are undergoing some reffitment in terms of equipment, clean rooms, closing out some of the plant. And we expect that in the next six to nine months, we will be able to start commercial production, at least validation and then commercial production for some of these products.

Henil Bagadia: Sir just a clarification, sir, when you said you are converting some part of the spec chem plant to Pharma use, so what will be our investment that we would be doing in terms of clean room and additional some reactors or so? And would we have to go through the entire process of

getting approvals from, I mean, the regulatory authorities or the markets where we plan to supply these quantities?

Anish Swadi: So, mostly what will happen is, since the plant is already on the US FDA property, right, so it's also considered to be US FDA approved per se because of the quality standards and the procedures are all following global regulatory standards. So, from that perspective, we are fine. Individual customers may or may not come and do their own audits per se. And obviously, when you commercialize a new plant, especially for Pharma and for potentially Animal Health, those products will be validated, and then commercial supplies will start thereafter.

So, it's going to be a mix of products that we already have in the pipeline. So, for example, we have some commercial products in the pipeline that we are already manufacturing. So, as a derisking measure, we may put some of those products in this new asset to meet capacity that we want. And in addition to which we will have a diversified range of new products that are coming from Pharma and Animal Health. And of course, we have our spec chem business also that continues to happen.

Henil Bagadia: Okay. And on the payback and, I mean, the return metrics for both the Animal Health plant and the spec chem plant, when do you see optimal utilization and breakeven and then your peak utilization?

Anish Swadi: Yes. So, it's the same as you mentioned, we follow the same metrics. It's anywhere between five to six years, as you said earlier. We follow the same metrics.

Henil Bagadia: Okay. Thanks for answering. I will get back in the queue.

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

Ankit Gupta: Sir, thanks for the opportunity. So, first question is on the Pharma side on the OAI being issued by the US FDA. So, given how the OAI works, so what happens to our existing pipeline of products that we will be doing on the CDMO side for our innovator partners? So, are we trying to shift it to the Panoli plant? Or what kind of corrective action are we taking? And are our innovator partners shifting these products that they plan to launch to other CDMO companies?

Sameer Hiremath: So, what we have done is that after this OAI status, all our customers obviously reached out to us and came and checked out all our systems and all the projects that were awarded to us. And irrespective, even before this, many of our products as part of our risk mitigation were already being filed from Panoli. For example, almost 80% or 90% of our Animal Health new portfolio is being filed from Panoli irrespective of this OAI status. So, that continues as is.

On the API side, on the human API side on both the generics and the CDMO space, all the new filings we are doing from Panoli. The existing products which are in Bangalore, which we were

launching, we have given the customers the option of either keeping it in Jigani, Bangalore, or to moving it to Panoli. So, far, they are comfortable with keeping it in Bangalore based on the orders and the quality satisfaction that they have done post the orders that have been carried in the last two, three months.

But there is a move to derisk, as Manoj mentioned, all our critical APIs. And we are proactively doing the filings from Panoli and also giving the customer the offerings to move the products to Panoli if they need. But very few have said that they want to actually move. Most of them are comfortable with keeping it in Bangalore itself.

Manoj Mehrotra: The reason is that they are comfortable as of now with the corrective action, which we have taken. And their audits have also shown that there is definitely a possibility in the next few months or maybe early next year, we can reverse this OAI status.

Ankit Gupta: But given Hikal's track record and your focus on regulatory compliance, this overhead comes as a big surprise. You have always been harping on spending a lot on critical assets, which keeps our asset turnover low because you have been guiding for a very good compliance track record. So, can you talk about the nature of observations which have been issued? And what corrective actions are we taking to reverse this? And any update on when is the inspection for the Panoli plant also due now?

Sameer Hiremath: First of all, none of the observations were to do with data integrity and they were procedural in nature. So, that's where we are on the observations. Regarding the Panoli plant, the last audit was in 2023 with zero 483 observations. And we are ready for an inspection. They come every two, three years for an inspection. So, we are due for an inspection maybe next year if not earlier.

Manoj Mehrotra: Also, the same facility was approved by ANVISA Brazil and Japan PMDA, which are equally stringent. So, okay, it has been a bit of aberration the way status by US FDA. But we are sure confident that we will get back where of our original track record.

Ankit Gupta: Sure. But do we have sufficient capacities available in the Panoli plant over the next year or two to fulfill the kind of demand that can come from the new product launches which are planned for this year and next financial year?

Sameer Hiremath: Yes. Anyway as part of our risk mitigation and our Project Pinnacle, Panoli site was being expanded. And most of the new CAPEX that Kuldeep spoke about is being done in Panoli. And the Panoli plant is building up new plants and new assets. So, this is part of the plan, and we will be moving all our new launches to Panoli. And this was done before the FDA status as well. So, we are just intensifying that now.

Ankit Gupta: Thank you and wish you all the best.

Moderator: Thank you. The next question comes from the line of Rohit Sinha from Sunidhi Securities. Please go ahead.

Rohit Sinha: Thank you for taking my questions, sir. So, one question on this deferment side. I know you already have answered so many similar questions, but one thing on this deferment. Earlier actually, I mean, people are thinking about because of the US tariff issues people are deferring the shipments or ordering. So, now although we know that these are deferments and completed in second and third quarter. But given the kind of rate hikes came into picture, are we seeing any change in these orders or rates given the kind of tariff is there?

Sameer Hiremath: Manjoj, do you want to take that?

Manoj Mehrotra: Yes. When you say rate hike means, tariffs?

Rohit Sinha: Yes, yes.

Manoj Mehrotra: So, as of now tariffs are not impacting the Pharma business at all. And we believe that these deferred sales, as we mentioned earlier, will be recovered in Q2 and Q3. And I explained in our opening session as well, as Sameer mentioned that, yes, there's a process, customers do their own audits and risk assessment post the FDA. And we have maintained full transparency with all customers. There's nothing systemically wrong with Hikal facility or practices. Observations were mostly procedural, and we are confident of resolving them by end of September. We will complete all the actions and then wait for the US FDA to respond. And we are actively engaging with the agency to come out of it at the earliest.

Rohit Sinha: Okay. Got it. And secondly, on the personal care segment, I know it's too early, but just if you can give some color on this opportunity which we are looking at and how much time definitely it would be to get the final approval from the customers? And how big revenue contribution could be there from this side?

Sameer Hiremath: Vimal, can you take that?

Vimal Kulshrestha: Yes. So, you are right, this is really early for us to comment fully on this. But just to give you a perspective that these RFPs, normal timelines of approval is around one, one and a half years. And once you get this, then you get into the development of that molecule and then commercialization timelines, which is typically one and a half to three years. Margins are good in this.

Rohit Sinha: Okay. Got it. And these are largely for export customers or domestic also we will be looking at?

Vimal Kulshrestha: So, it's for both, but largely for export.

Moderator: Sir, do you have any other questions? As there is no response from the participant, we will move to the next participant. The next question comes from the line of Rohit Mehta from Nexus Capital. Please go ahead.

Rohit Mehta: Thank you for the opportunity. Apologies, I joined the call a little late. So, apologies if you already covered this. I just wanted to know, so can you highlight reasons for there this deferment of revenue. So, just wanted to know, sir, reasons for this and what is the process that customers would follow generally for this?

Sameer Hiremath: No problem, Rohit. So, what's happened is, which I covered in my opening speech and Manoj spoke, is that the deferment happened due to the OAI status and customers came to recheck and reaudit the facilities, which takes about six to eight weeks by the time they give us approvals. And all this has been completed as of end of July, and the shipments have started from July itself onwards. And we expect the ramp-up to happen in August, September, October, and November. So, we expect this deferment to the tune of approximately Rs. 50 crores from Q1 to be made out in Q2 and Q3. I would like to reiterate again that no orders have been canceled, and all contracts are in place and customers reaffirmed their commitment to pick up the product from us within Q2 and Q3. So, we are quite relatively confident that this will be made up within the next two quarters itself.

Rohit Mehta: Right. That was very helpful, sir. Sir, just a follow-up on that, it would be helpful if you could just highlight status of our response that we would have filed to the US FDA. Has it all been cleared or is it still pending?

Sameer Hiremath: So, there were a few observations that were given to us. Based on that, we had corrective actions, preventive actions called CAPA. A large majority of them have been already implemented and updated to the FDA. We are in constant touch with the FDA on a regular basis. The last update went in end of July, just a week ago. The remaining CAPA, which is a small percentage is remaining, and that will be completed by September. So, that by end of September, we will complete all the CAPAs. And we are expecting to hear back from the FDA in the next few weeks, next month or so regarding the next steps. We are actively engaging with them, and we are also quite confident that we should be able to resolve the issue at the earliest.

Rohit Mehta: Sure. That was very helpful. That's it from my end. All the best.

Moderator: Thank you. The next question comes from the line of Parth Vasani from KK Advisors. Please go ahead.

Parth Vasani: Hi. Thank you and good evening. Just excuse me if there's any repetition. I got disconnected in between. So, I had just one question. If you could highlight what are the measures that you have taken to address the OAI.

Sameer Hiremath: Yes. So, obviously, this OAI status has come as a bit of a surprise for us because, as you know, for the last 25 years, Hikal had a stellar record with the regulatory authorities. And immediately after this inspection, we had two inspections from Brazil and PMDA Japan, which is equally stringent and those went off successfully. So, that being said, when we got to know this OAI status at end of May, we knew the observation. We started working on this post the observations which were given to us in February. And we have onboarded external global regulatory consultants, who are helping us to close out the observations and the CAPAs on an urgent basis.

We have also collaborated with some of our global customers whose quality teams are working with our quality teams to ensure that all the responses are done properly and all the systems, whichever needs course correction action have been done. We have onboarded several new industry experts into the quality organization, created a quality excellence team in the company and provided more and more digitization and automation that has been implemented in the organization. In addition to that, we have also started moving more and more products to our Panoli site and we are validating several products at our Panoli site, which was anyway part of our program, but that has only been intensified and speeded up.

Most of our new molecule launches were planned anyway for Panoli. And the existing business, which is remaining in Bangalore, we have offered our customers the option of dual sites. And as of now, they are comfortable with the site in Bangalore based on the audits and the visits that they have undertaken physically at our sites in the last couple of months.

Parth Vasani: Got it. That was really helpful. Thank you very much for the detailed answers.

Moderator: Thank you. The next question comes from the line of Manoj Bagadia from Equicorp. Please go ahead.

Manoj Bagadia: Hi, Sameer. Sameer, just one question about the FY '26 guidance. Do you see any other risk to the FY '26 guidance apart from the deferrals what we have seen in Pharma?

Sameer Hiremath: Well, global tariffs, not regulatory, is a question mark, right, as of now, Pharma is not covered by tariffs, but it's anybody's guess, right? Things are so fluid and changing if there's any thought, but that will affect the entire industry, not just affect us.

Manoj Bagadia: Right. Okay. So, tariff is the only thing that you are worried about, right, in case if it comes?

Sameer Hiremath: Yes.

Manoj Bagadia: Yes. And my second question is, in last four years you would have spent almost Rs. 900 crores in CAPEX, right, investments in businesses. And somehow because of the situation, whatever has happened, we have not been able to generate much return on that. And what happened with the US FDA, again, that is probably differing to an extent. And apart from that, one plant we are converting into Pharma, right? So, whatever has happened, now do you see that FY '28 you

would have the best return from the CAPEX we have invested instead of FY '27? Or do you feel FY '27 will capture significant upside from these investments?

Sameer Hiremath: No, that's the plan. I mean, yes, you are right. I mean, the CAPEX has been spent in the last three, four years. Some of it has gone towards growth CAPEX. A large part of it has also got towards infrastructure CAPEX. We have spent a lot of money on our R&D center in Pune. We have upgraded our Panoli facilities in the last two, three years to get US FDA inspected in '23 and a lot of infrastructure was spent in Panoli on the CAPEX as well. That being said, yes, the plan is on FY '28, '29, all the CAPEX should surely start returning the return that is expected to give.

Manoj Bagadia: So, FY '26 would not be as per your expectation, right, original expectation. It would be probably somewhat lower than what you would have expected earlier?

Sameer Hiremath: Yes. More or less, I mean, we had planned because the crop business are doing a lot of stress as of now, the Pharma business will grow. Can we grow faster? For sure, but it will definitely grow compared to last year, the Pharma business. And we are quite optimistic with the new NCEs that we are launching in human and in Animal Health, the future is extremely bright for the Pharma business. And even with the crop business with the volumes coming back, which Vimal spoke about by end of this financial year and volume recovery is already beginning, we have also onboarded some new customers and won some new RFPs, which will start coming into play by '27, '28. So, then our crop business capacity utilization will also grow up significantly, and that is about operating leverage. So, returns will look far healthier than where they are today.

Manoj Bagadia: Sameer, all the best for the future. And just one suggestion request, whatever you say. I have been an investor in this company for almost 12, 15 years, I do not know how long, right? In last few years, the return as the investor has not been much because of whatever factors have happened. But hope we catch up in next two, three years, we catch up for the returns of last five, seven, eight years. I hope for that.

Sameer Hiremath: Yes. I hope we meet your expectations.

Manoj Bagadia: Thank you, Sameer. Appreciate it.

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

Pranay Dhelia: See, another very disappointing set of numbers. If we just go back by three months, last con call, we were promised that growth has returned and we will see better days ahead. And we always talk of the long term whenever we have a shattering quarter. But as the previous person gentleman asking the question said, if you look at the last 10 years' data, I think that is good enough to judge long term. Our profit growth has been 8%, last five years it has been 1%

negative. Sales growth has been 4%. So, when does this long term actually translate into the present term? Or do we just hear long term for grandchildren?

Sameer Hiremath: No, I do not think that's going to be the case. I think we have a detailed plan called Pinnacle, which is very detailed out a very structured plan, and we are going as per that. Even the Quarter 1 last year was a very low quarter. But as we said, we grew substantially in Q2 and by Q4, we ended the year very positively. So, this quarter, yes, there was a setback because of deferment, which was not anticipated three, four months ago, but that has happened. It is what it is. But we have a very elaborate plan which is put into place to ensure that the growth comes back this year. And we have plans to derisk our portfolios. And the crop business, once it comes back to steady state of what it was in FY '23, the crop division had grown until FY '23. Yes, Pharma went up and down, but it will come back to those levels and then the company will start firing on all cylinders. It's a matter of two more years, I think, Pharma will come back this year and crops will come back in the year after that.

Pranay Dhelia: So, what you are trying to imply is for two years we will be having these swings here and there, and we do not see any constructive growth?

Sameer Hiremath: I didn't say that. I said we will see growth next year as I have given my guidance.

Pranay Dhelia: With all due respect, sir, as a shareholder, we would be happier if the company does well. But you will have to have some kind of limit on our patience wherein you have been invested in the company, forget the share price, that is always going to follow the fundamentals. The fundamentals refuse to improve. You would be agreeing to me if I say last five years we have had flat sales and no profit growth at all, rather degrowth.

Sameer Hiremath: The numbers are there. I mean, what do you want me to say?

Pranay Dhelia: We must find some way to improve on it. I mean, even on the Pharma side, we are having industry bottom margins. We look at all other Pharma companies, they have improved. There's something which we are doing wrong, which needs to be corrected. The long-term world just does not hold good anymore.

Sameer Hiremath: No, point is noted. I think we appreciate your long-term investment and your patience in the company. And I just would reiterate to you to remain invested and we are turning the corner and the future is bright.

Pranay Dhelia: I hope so too. Best of luck.

Moderator: Thank you. The next question comes from the line of Sajal from Antifragile Thinking. Please go ahead.

Sajal Kapoor: Hi. Many thanks for taking my question. So, Sameer and Manoj, a question is directed to both of you, if you can, please. So, my sense is, PMDA visited many weeks after US FDA visited and raised those critical observations. So, the CAPA must have been largely completed by the time the Japanese regulators visited, right? So, while customers may have been reassured following this CAPA implementation, it kind of unequivocally indicates that Bangalore plant was non-compliant prior to this corrective action and this breach likely undermined customers' confidence, putting future projects is still pending award to Hikal at significant risk being awarded to our competitors now, right? So, how will Hikal convince both the existing as well as the new customers to award fresh contracts in light of what has happened with this OAI?

Sameer Hiremath: Manoj, it's all yours.

Manoj Mehrotra: Yes. See, the US FDA audit happened in early February. This was followed by ANVISA in April, ANVISA Brazil followed by May PMDA. So, every agency or every auditor who comes to the site has a different way of looking at the same thing. So, yes, US FDA, we got six observations, and we gave them a response, and we corrected and we are in the process of correcting. But both ANVISA and PMDA of the same facility give only a few minor observations. So, it may not be 100% right to say that we were noncompliant in the period February, March. We have always been compliant. Yes, there are some procedural observations, which we are correcting. And even US FDA has not kind of put any embargo on our products or production or shipments. It is more for a future that we have to correct.

And customers, when they came to audit us also, they have been satisfied with the progress. And even before this US FDA inspection, customers do come regularly and visit and audit. So, things have been good, okay. There were some minor aberration, which we will correct now. I do not think this OAI status reflects any fundamental noncompliance at the Bangalore site. And as recent as 2019, we had just a single observation in Bangalore. Panoli was done in 2023, and that was zero fault. So, we have had a good history for the last 20, 25 years, and we are confident that we will bounce back after this OAI status. We have several examples in the country as well. Things do go wrong and you have to take it in your stride and correct it.

Sajal Kapoor: No, of course, Manoj. I mean, all of us appreciate that, I mean, science is a moving target and new regulations keep coming our way and we got to be on your toes and Hikal has been.

Manoj Mehrotra: Also, it's very subjective these observations, yes.

Sajal Kapoor: No, that's fine. Typically, customers face a penalty for canceling contracts, the CDMO contracts in particular, which likely explains why they are still honoring their current agreements. However, this may lead to, and may is the keyword here. This may lead them to kind of rethink and reevaluate their options for future agreements. Is that a possibility?

Manoj Mehrotra: They have continued to engage with us and they have audited and they are confident that we will come out of it very soon. There's no risk to product quality or any impact of that kind. So,

we do not see that much of a risk. Yes, there's an OAI status, we will correct. There are no real scenario yet. There was concerns people would have canceled orders or canceled contracts. But fortunately, that has not happened. The industry people they know that these things happen, and they work with you, I will say the other way. Because they have approved you, so they also believe that things are correctable. And they work with us jointly to ensure that.

Sajal Kapoor: No, I agree on that point, Manoj, for sure, because we have seen that with Divi's who got US FDA, even there was an import alert, if I am not mistaken, back in 2023. But customers flew all the way from US, and they worked shoulder to shoulder with Divi's guys and they sorted everything out within a matter of, off the top of my head, I think six to eight months.

Manoj Mehrotra: It's a partnership what we have with our customers, yes.

Sajal Kapoor: Yes, yes, absolutely. And Sameer, you mentioned that H2 will outperform H1 this year, but isn't that typically the case for Hikal anyway? And many of the other CDMO companies, I mean, you look at Piramal, you look at Laurus, I mean, you name any. Typically, what we find is that H2 is heavier because in Q3, customers do not want to take shipment because it's their year-end December quarter, so they do not want to put inventory on their balance sheet. So, Q4 anyway is very strong for the industry. So, how does this Q4 this year is exceptional that we need to call it out separately that H2 will be stronger than H1. I mean, that anyway has been, if you look at the history of Hikal over many years.

Sameer Hiremath: I said that was because of the loss of Q1, the additional deferment that is taking place, which was not anticipated in the regular year in the past. So, that is going to have an additional upside on the H2 numbers beyond H1. So, that differential between H2 and H1 will be greater than what it historically used to be for us.

Sajal Kapoor: Yes. Okay, understood. Thank you so much. All the very best.

Moderator: Thank you. The last question comes from the line of Henil Bagadia from Equicorp. Please go ahead.

Henil Bagadia: Thank you for the opportunity, again, sir. Sir, for the last 10 to 12 quarters, we have seen a massive slowdown in the crop protection side, and we actually refocused the strategy more towards the CDMO part. So, I mean, we did plan to get into complex generics, and we also plan to do the CDMO part for the impatient molecules for the customers. So, I mean, where are we out there? And how have we seen that move in the last 10 to 12 quarters in terms of our revenue contribution? And also, if you could also allude what's your aspirational target for the CDMO part across all the three verticals, Animal Health, Pharma and crop chem?

Sameer Hiremath: Well, we are getting involved in more and more complex products as a percentage of our business. We are getting involved more and more on on-patent chemistry, I would say, rather than complex. On the generic side, yes, the products are more complex, which we are launching

compared to the commodity portfolio that we probably had about four, five years ago. All the new launches we are doing is more on niche chemistry, niche molecules that we will be launching in the next few calendar years. So, that's a big change on the Pharma side. The second question was regarding what is the split between own and CDMO, right? That was the question that you had.

Henil Bagadia: Yes, what's the split and what's your aspirational target? Where do you see going about three, four years down the line?

Sameer Hiremath: Well, CDMO has already overtaken even in this quarter significantly the own products. And the revenue, historically, it used to be about 50-50 as a company, if you look at historical last three, four years. We are moving towards 60:40, 60% CDMO, 40% owned. And very soon, we will get to about 70 CDMO and 30 owned in the next couple of years.

Henil Bagadia: Okay. Sir, since a lot of our crop chem capacity is not completely utilized, so is it possible to convert it into other spec chem as we have done in spec chem, we have converted into part Pharma and part we are going to do on the spec chem side. Because as we get into the HPC and the BPC, that is the Beauty and Personal Care products and household personal care products, I mean, one of our peers, they have guided for about 2x volumes and even more EBITDA growth. So, I mean, because they are seeing a lot of traction out there and since we are also there in the sulfur chemistry. So, I mean, do you see some kind of fungible shift happening?

Sameer Hiremath: No, I think so. The industry is looking quite promising. And we are retooling some of our crop production lines to make personal care products and the launches are being done from Q3 onwards from our sites.

Henil Bagadia: So, what will be the CAPEX there?

Sameer Hiremath: Very marginal. We are retooling a few very, very negligible. Because our crop finishing areas are built at very high standards for multinational companies. So, we have been audited by the personal care global companies. They have come and visit our crop sites, and they have approved them for personal care products with some documentation upgradation, et cetera, et cetera, which is easily repurposable and done, which we are doing.

Henil Bagadia: And lastly, on the CDMO part. So, if you see the industry, a lot of companies actually get contracts because they have got a CRDMO. They have got a resource vertical also. So, for us, I mean, we were masters in process chemistry where we could produce probably cheaper than most of the other CRDMO players. So, I mean, we have invested significantly on the research side in the last five, six years. So, I mean, do you see going forward, we can monetize this kind of vertical that we provide outsourced research services or probably get a CRDM vertical too in order to increase our traction on this, I mean, the CDMO to CRDMO side. As you said rightly said earlier, we are 50:50 and probably aspirationally, we can go to 70:30 also. I mean it helps us also make the research as a cash cow or cash generating unit.

Sameer Hiremath: No, that's a very good question, and that's actually the strategy. Our R&D center has moved more towards CRDO and that builds into our CDMO engine. And most of the new projects we are winning is starting in R&D in development, making a few kilograms and then scaling up and then moving into a CMO model. So, it's always contract development first, which is a CD part and the MO part is coming subsequent because we have a good strong R&D, we are winning more CDMO projects. And the R&D center in Pune is being looked at more as a profitability center, it is generating revenue, and it will generate business for us also for our CDMO business.

Henil Bagadia: So, is it right to aspirationally assume going down, I mean, three, four, five years down the line, other than the crop chem and the Pharma segment we see right now, we probably see animal Pharma, crop chem research as a separate division and the spec chem division, I mean, targeting, I mean, HPC, BPC as of now and probably some other industries also.

Sameer Hiremath: Yes, I think four verticals for sure. But the R&D will feed all the four verticals because it's really state-of-the-art R&D center. And it is built on innovation and technology. Because eventually, once you scale up the product and do the launches on a commercial scale, that's when the big volumes and the revenues come. R&D, every project value is very small, but it gets your stickiness with the customer because they involved early on in Phase 2, Phase 3 with the customers, and then they do not change once they are in the supply chains.

Henil Bagadia: Okay. Thanks a lot for the answers, sir. Wish you all the best.

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

Sameer Hiremath: 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. 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. Once again, thank you for your participation, and have a good evening.

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