

## "Hikal Limited Q2 FY2021 Earnings Conference Call"

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Moderator:

Ladies and gentlemen, good day and welcome to the Hikal Limited Q2 FY2021 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinion and expectations of the company as on date of this call. The statements are not guarantees of future performance and involve risk and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sameer Hiremath-Joint Managing Director & CEO. Thank you and over to you Sir!

Sameer Hiremath:

Good afternoon and a very warm welcome. I am Sameer Hiremath, CEO and Joint Managing Director and along with me I have Mr. Anish Swadi, President of Business Development and Strategy and Mr. Kuldeep Jain, our Chief Financial Officer and Strategic Growth Advisors, our Investor Relation Advisors. We hope you and your family members are safe and healthy. I am pleased to interact with all of you on the semi-annual earnings call. I hope you have received the earning release and results. For all those who have not you can view these on the stock exchange and on our website. At Hikal, following the necessary guidelines to safeguard our employees while ensuring that manufacturing operations are running smoothy. As COVID-19 situation improves in the country, we are seeing easing of the lockdown restriction leading to improvement in our plant utilization level even further. We have taken the opportunity during lockdown to work and to roll out several business excellence initiatives across our company to enable us to deliver sustainable growth in both our topline and bottomline in the near term. We believe these initiatives along our strong manufacturing capabilities will help us improve our return ratios even further.

As we have stated in our last earnings call, during the COVID period we have not lost a single order or client; however, due to COVID-19 related restrictions we have seen some deferment in offtake especially in our crop protection division. Talking about our Q2 performance, revenue for the quarter was Rs.371.9 Crores, registering a Y-o-Y growth of 15.8%. Our EBITDA excluding the COVID related expenses came at Rs.70.9 Crores, which is a growth of 21.6% Y-o-Y, EBITDA margins excluding COVID related expenses saw an improvement of 90-basis points to 19.1% as compared to 18.2% in Q2 of last year. The improvement in EBITDA margins is due to higher sales on a Y-o-Y basis and significant improvement in operational efficiency. Now I would like to brief you on the segmental breakup.

Our pharmaceutical division registered a strong revenue growth as well as an operating profit growth for the quarter. The division recorded revenue of Rs.279 Crores which is



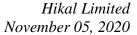
higher by 34% on the Y-o-Y basis compared to Rs.208 Crores in Q2 of last year. The EBIT for the division came in at Rs.49.7 Crores which is a growth of 99% and compared to Rs.24.9 Crores in Q2 FY2020. This translates to an EBIT margin of 17.8% in Q2 FY2021 as compared to 12% in Q2 FY2020, an expansion of 580-basis points. The strong performance in this division were driven by increased volumes of the existing products, and more importantly, new customers in newer markets. Our product portfolio both in the development and commercial pipeline is strong and they are gaining traction with existing customers and signing new ones.

On the API development of Favipiravir, we are in contact with customers and supplied test quantities, we expect to supply the API in the next few months. Our CDMO pipeline is healthy we are evaluating various new opportunities for early stage molecules including some promising prospects in the niche animal health care segment. We are also planning to diversify our pharma API production by updating our Panoli facility from an intermediate manufacturing facility to an API manufacturing facility next year. The required capital expenditure projects are in the final stages and we expect them to be operational by first quarter of FY2021-2022. This will enable us to sell APIs from our Panoli facilities as well.

Our crop protection revenue for Q2 was Rs.92.6 Crores which was lower by 18% as compared to the corresponding quarter of the previous year. The drop in revenue was primarily due to lower volume off take by one of our global customers that has deferred off take from Q2 to Q3 as it faced COVID related challenges at their facilities. This deferment has impacted our revenue for the division by about Rs.40 Crores in Q2, however the client has confirmed that they will pick up all the deferred volumes in this current quarter that is Q3 resulting in no loss of revenue for the year. Based on this we are confident that we will be able to achieve our annual revenue target for the crop protection division for the year.

The lower revenue led to disproportionate absorption of fixed costs for this second quarter in the crop protection division impacting the margins for the division. The deferment of revenues also resulted in lower absorption of the fixed cost thereby reducing the EBIT for the division to Rs.7.8 Crores compared to Rs.21.3 Crores. This translates to EBIT margin of 8.5% in Q2 FY2021 compared to 18.9% in Q2 FY2020. However, we expect that on a full year basis, the revenues and margins will be normalized in Q3 and Q4 and for the entire year, the crop protection division will show growth.

On the balance sheet front, our gross debt as on September 30, 2020 is Rs.639 Crores as compared to Rs.645 Crores as on March 31, 2020, a reduction of Rs.6 Crores. **Our Debt to Equity** ratio has improved from 0.71x as on March 31, 2020 to 0.65x as on September 30, 2020.





Even during the difficult time of the pandemic for most industries we had not opted for any additional moratorium on our debt servicing and have met on our debt servicing obligations. On the working capital side, we are seeing increase in overall days from 110 days as on March 31, 2020 to 129 days as on September 30, 2020 mainly due to increase in finished goods inventory in the crop protection division. Adjusting for the additional inventory the working capital days will be 119 days. On the cash flow front during the first six months of FY2021 we have generated a strong net of cash flow from operations of about Rs.64 Crores which are utilized towards capex and debt repayment.

Now moving on to the capex update, after a brief disruption in Q1, the work has resumed, and all our projects are in full swing. Based on the current progress we expect to start commissioning several capex projects from Q1 of FY2022. As on September 30, 2020 we have spent Rs.200 Crores and the balance Rs.100 Crores will be spent in the next six months. In terms of future growth opportunities, there are strong tailwinds in both our businesses. There is an increase in the number of inquiries on several global MNCs and we are confident of converting these opportunities into a concrete revenue for both our divisions. Looking at the current operating environment, we expect a much better and stronger performance in H2 as compared to H1 and anticipate a growth of approximately 10% for the current financial year over the last year. We also continue to explore new opportunities with customers in alternative raw materials suppliers in the domestic market under the Atmanirbhar Bharat initiative of the Government of India. The commissioning of new capacity coinciding with several tailwinds and new opportunities from our customers in both our businesses will enable us to grow our revenue and profitability at a faster pace in the coming years. With this we open the floor for Q&A. Thank you very much.

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.

Rohit Nagraj:

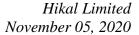
Thanks for the opportunity and congrats on a good set of numbers from the pharma segment. The first question is in terms of the product pipeline, so currently how does the pipeline look like and in the next few years what are we expecting in terms of the product pipeline across both crop protection as well as pharma sector?

Sameer Hiremath:

Thanks for the question. Every year we file about three to four of our own molecules in the pharma space and a few products that we are doing on the crop space, but at any given time today we have in the crop division three to four products in the CRAMS under development and about two proprietary products i.e.our own products in crop space under development. On the pharma side, we have about four to five products in the CRAMS pipeline and three to four proprietary products i.e. our generic products under developing currently.

Rohit Nagraj:

And what could be the potential revenues for these products for both the segments?





Sameer Hiremath: So each product typically has a revenue base of between Rs.40 Crores to Rs.50 Crores as an

average, some will be slightly higher, some could be marginally lower, so the average each molecule we are looking at each product we have a potential of at least Rs.50 Crores per

annum going forward.

**Rohit Nagraj**: And just one last question on clarification, so last time we had indicated that we will be

having the EBITDA margin improvement of about 50 to 100-basis points every single year, so the guidance still remains the same and another question, once the Rs 300 Crores capex is completed by the end of FY2021, what is the timeline within which we will be able to get

the asset turnover of about 1.5x to 1.6x. Thank you.

**Sameer Hiremath**: We confirm that the EBITDA will improve by 50 to 100-basis points year-on-year going

forward including this year that is we are still confident of that. Second question is regarding when will the capex will start generating the credit turnover of 1.5x to 1.6x is

between two-and-a-half-to-three years is the full capacity utilization post Q1 FY2022.

**Rohit Nagraj**: Thank you and best of luck Sir.

Moderator: Thank you. The next question is from the line of Hasmukh Gala from Finvest Advisors.

Please go ahead.

Hasmukh Gala: Congratulations for good set of numbers. I just wanted to know at any given point of time

how many CRAMS projects do we have in pharma and in crop protection?

Sameer Hiremath: I think that is answered, I will answer it again. In pharma at any given time we have four to

five products in CRAMS under development while crop is between three to four at any

given time.

**Hasmukh Gala**: Okay, so these are the projects which are ongoing?

Sameer Hiremath: Corrrect, these are custom manufacturing projects which are currently ongoing.

Hasmukh Gala: Okay and Sir in terms of the stages of evolution under which stage these products are? Like

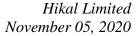
how far from commercialization?

Sameer Hiremath: So the pharma projects are between phase 2 and phase 3 while the crop projects are mostly

already commercialized or will be commercialized in the next couple of years.

Hasmukh Gala: Okay.

**Sameer Hiremath**: In Crop Protection, the development cycle is shorter than the pharma, pharma takes longer.





**Hasmukh Gala**: Another question is, earlier you used to give the breakup between the API and CDMO sale,

can you give that breakup for FY2020 and how much is there in first half?

Sameer Hiremath: So as a company we are averaging in the range of 45:55, or50:50, it varies 500-basis points

up and down, so it is in that range we expect it to be close to 50:50 may be 47, 48:52 that

will be close to that range, 50:50.

**Hasmukh Gala**: In both the businesses?

**Sameer Hiremath**: Yes, in both businesses.

**Hasmukh Gala**: And how do the margins vary between these two?

**Sameer Hiremath:** So far pharma business is 50:50, crop business is 70% custom manufacturing and 30% is

our own product.

**Hasmukh Gala**: Okay so that is pharma and crop protection 70:30?

Sameer Hiremath: Yes.

**Hasmukh Gala**: Okay and how do the margins vary between these two?

Sameer Hiremath: Contract manufacturing margins are slightly better than own product margins, but again

own product if you pick the right molecule, you know the margins could be pretty good, all the new products that we are now launching starting this year onwards we are looking at a better EBITDA margin profile compared to a historical margin so this will also help raise

our margin expansion going forward.

Hasmukh Gala: Okay, we were one of the pioneers in CRAM space and now you know if you see around

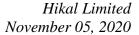
there are so many companies which have come out in this, now what are the main competitive and technological advantage is that we enjoy so that you know we can scale up our EBITDA margin because some of the companies they say that they are earning about 25% type of EBITDA margin in their CRAMS business, so you know, what is the differentiating factor, is it the choice of a molecule that we take up or is it our own

operating structure, so what are the basic differences?

Sameer Hiremath: I mean the compliance track record plays a big role, so we have good compliance track

records and now that we have capex that are putting into the business, the new business that is also requiring now is also closer to this margin that we have spoken about in our

competition. We are competing on the similar projects now.





**Hasmukh Gala**: Thank you very much Sir. Wish you all the best.

**Moderator:** Thank you. The next question is from the line of Sunil Kothari from Unique Investments.

Please go ahead.

Sunil Kothari: Thanks for opportunity Sir. Congratulations for good numbers. Sir, my question is, we seem

to be very confident about further progress of revenue growth and we already passed this tough time very well, so looking at the operating leverage benefit should we expect margin onwards I think this should be the base of the margin and it should improve as we go ahead

that is what my first question?

Sameer Hiremath: You are absolutely right, we are confident of growth even this year we are projecting

growth and going forward so margins will grow in excess of 100 basis points for next year

onwards year-on-year, we are confident about that.

Sunil Kothari: Slowly pharma is growing faster. First half also we grew almost 20% so this ratio will

change over a period of next two-three years, pharma will be having higher contribution and

crop protection may be because of lower growth will be proportionately lower?

Sameer Hiremath: No actually in crops we have some big products that were under finalization and

commercialization so they could see a steep jump in the crop business in the next couple of years which we were working on for the last few years and once capex comes on stream by early next year for the crop business as well, from next year onwards the crop business will

catch up with the pharma business very quickly in the next two years.

Sunil Kothari: Thank you very much.

Moderator: Thank you. The next question is from the line of Chetan Thacker from ASK Investment

Managers. Please go ahead.

Chetan Thacker: Good afternoon Sir. I just wanted to understand two things. One is on the pharma side, is

there any particular therapy focus we have or a particular chemistry focus we have and

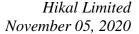
based on which we are looking at customer product acquisition?

Sameer Hiremath: So we are currently strong in two segments, first is CNS and second is anti-diabetes, so

these are the two segments that we are.

Chetan Thacker: And the new projects also are focused in these two areas itself, would that be a fair

understanding?



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Sameer Hiremath: If a custom manufacturing project comes then the customer may ask for a different therapy

we are open for that as well, but for our own portfolio we were developing in these two

therapies, CNS and diabetes.

Chetan Thacker: Okay and the second question was if I look at the company in the last 10 years, we have

been having this combination of own products and contract manufacturing and the same continues what has really changed from a product perspective that now we expect ROCE to improve significantly from what we have witnessed in the past so is it that low ROCE products have been shelved and the reactors are being filled with higher ROCE projects so

just wanted to get a sense from you on how will this shape up in the next five years?

Sameer Hiremath: We are not shelving any low ROCE products, improving the margins of the older molecules

by operating at larger scale and backward integration that has been the one change and the second thing is the new molecules are taking over a larger share of the business. The older molecules are becoming a smaller part of our business and the new products that we are launching the last couple of years and we will launch going forward are at a higher margin

compared to the older molecules that is how the whole margin profile of the business will also change upwards.

Chetan Thacker: So is there a particular threshold IRR that you look at while executing these products and

projects?

**Sameer Hiremath**: We look at any payback has to be less than three years, two-and-a-half years to three years,

maximum.

**Chetan Thacker:** Okay so this is the sharp change from what we have witnessed in the last 5 or 10 years?

Sameer Hiremath: Correct and EBITDA margins are well in excess of 20%, closer to 25% for all the new

projects.

**Chetan Thacker:** Is it fair to assume as we move out for five years, is it fair that our ROCE can inch closer to

the 30% mark company as a whole?

Sameer Hiremath: I think we are targeting in the range of 22% to 24% as of now, and we are working towards

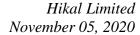
this improvement, we are comfortable at that 24%, currently we are about 14% so about

10% improvement is what we are working towards and even beyond that.

Chetan Thacker: And Sir in your estimation given the resource allocation or capital allocation that you would

be doing given that pharma is a larger opportunity size compared to crop, is it fair to assume that over a medium term pharma will see a faster growth or you see crop first getting to a

larger base and pharma also continuing from there on?





Sameer Hiremath: I think from the short term pharma will accelerate faster than the crop business, crop is a

much smaller industry compared to pharma, opportunities are smaller but currently pharma is about 60%, crop is about 40% of our total business may be one or two years that ratio might change but over the five-year horizon it will be closer to that may be 65:35 it would

not go down to 80:20 or anything like that.

Chetan Thacker: Thank you so much. All the best.

Moderator: Thank you. The next question is from the line of Payal from Green Portfolio Private

Limited. Please go ahead.

**Payal**: Rs.12 Crores has been added to capital work in progress, this seems pretty slow so what

could be the reason and do we expect some delay in completion?

**Sameer Hiremath**: I will ask my CFO, Kuldeep Jain, if you can take this question?

**Kuldeep Jain:** Sure, as we mentioned in the earlier call, there was a delay because of the COVID, so this

Rs.12 Crores has been added further assets on the ground which is added to the CWIP. As far as the delay is concerned, I think Sameer has already mentioned that we are delayed certainly from the implementation of those projects and now revised timeline is somewhere

in the Q1 of the next year.

Payal: Okay, thank you.

Moderator: Thank you. The next question is from the line of Karan Mutha from Aurum Capital. Please

go ahead.

Karan Mutha: Thanks for the opportunity. Excuse me if I missed it because I joined late, but I just had a

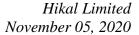
question that why are we under performing on the crop protection segment, last time you had mentioned in the last call that we will be picking up soon, but in this quarter we have still not reached last year levels or with this quarter we have underperformed compared to

the last quarter, so any reason for that?

Sameer Hiremath: I think I explained that in my opening remarks and my opening statement, since you joined

late I will repeat that. We had a deferment from one of our major customers order from Q2 to Q3 which has shown up in our balance sheet as inventory, so the material has been produced, it is a large quantity of almost Rs.40 Crores, but it is all being shipped in Q3 even this month the shipments are already starting for the product and the purchase orders were differed because of some COVID restrictions of the customers end, an international customer, so that was only the reason why the deferment of the business, annual business

on the crop business is still going to show a growth and we are confident of achieving





growth for the business this year and whatever we said in the last meeting we still stand by that for the full year.

**Karan Mutha**: Thanks a lot.

**Moderator:** Thank you. The next question is from the line of Sajal Kapoor from Unseen Risk Advisors.

Please go ahead.

Sajal Kapoor: Thanks for taking my question and so Sameer, assuming that the worst is behind us in our

crop protection business, can we take 2018 December quarter as the base because there were no disruptions back then and we recorded sales of Rs.160 Crores in December 2018 and if we add that Rs.40 Crores shipment deferred from Q2 to Q3 to that, can we get to Rs.200 Crores sales in this quarter, are we back on track or are we still few quarters away

from that mark or let us say Rs.200 and above on a quarterly run rate?

**Sameer Hiremath:** Rs.200 Crores is definitely within reach, we are close to that because there is a backlog of

about Rs.40 Crores may be one more quarter to go on that.

Sajal Kapoor: Sure that is helpful and the second question is a little medium to longer-term, so assuming

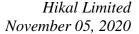
we grow sales at a nominal 15% CAGR over the next four or five years, we double these size from the current base and then with a better product mix on the back of our increased R&D investments over the years we get some gross margin expansion there and then the usual operating leverage which is very intrinsic to our business and can make our margins significantly better than where they are today, I know you as you alluded to ROCE getting somewhere in the region of 22% to 24% over the next four to five years, but how does this sort of roadmap sound like because if we execute as per this roadmap, I think 2024 or 2025 this would look as a very sort of different business with much better ROCE and margins so just wanted to know your some qualitative thoughts or if you could add some color around

this?

Sameer Hiremath: The growth number that you had mentioned are definitely achievable and they are very

much in our line of sight and scale will definitely result in improvement in EBITDA margin as well as our return on capital employed will grow towards that 20% to 24% mark, so we are very confident and I think the worst is behind us. We have got a lot of products in the pipeline the tailwinds are all there supporting our business as you have seen some of our competitors also everybody is doing well in our space and we have long-term contracts that we are signing up, it takes time, but we have finalized many contracts in the last 6-12 months based on which our capex was commissioned and has been completed. So starting FY2022 onwards and FY2023, growth will be there and start getting accelerated from next

year onward.



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Sajal Kapoor:

That sounds very reassuring and finally Sameer and how our customers have behaved in recent months so are they doing any one-time stocking due to COVID, which would not be repeated next quarter or in future are they looking to sort of increase their sourcing from us in a way which is more sustainable and have the discussions been around consistency and predictability of supplies over just the pricing because previously in the API intermediate business pricing was always the number one sort of parameter, but that may have taken a backseat given the China plus one strategy and the supply chain global realignment so just wanted to know your current assessment around this and any one time stocking due to COVID?

Sameer Hiremath:

Moderator:

So I do not think there is any one time stocking due to COVID in our businesses, our businesses are not related to any COVID related products so that is where the one-time stocking could have taken place. Our forecasts have been reconfirmed by all our customers. There has been no reduction maybe deferment from one quarter to the other that is about it and we had in our crop business in Q2, but from an annualized basis we are not seeing any reduction in volumes. In fact, customers are asking us that, with a new capex that is coming in, what more products they can do with us and how they can move more market share and more volume to us so those are the kind of discussions we are having with our customers.

**Sajal Kapoor**: So that is excellent news Sameer. Wish you all the very best.

Thank you. The next question is from the line of Aditya Khemka from Incred AMC. Please

go ahead.

Aditya Khemka: Thanks for the opportunity and good afternoon everyone. Sir couple of questions on your

pharmaceuticals business we have seen pretty rapid growth in the business on a consistent basis, can you just point me towards what is driving the growth in pharmaceuticals

historically speaking what is key value proposition that we have for our customers?

Sameer Hiremath: Well reliability, compliance track record and technology have been the reasons. And we

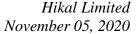
have been in this business now for almost 20 years and it takes time to get your presence felt in the pharma business and maintain a good track record so that is definitely helping customers with reliability become the number one buzzword now I mean price is important but not as important as reliability. They would like to work with a handful of companies globally who have a reliable and a good track record, because of that we are seeing the

pharma business accelerate and we expect it to grow in the coming years as well.

Aditya Khemka: Fair enough and Sir if I look at the segmental revenue and segmental results that you report

with your results what is pretty clear is that your EBITDA margin in pharma business is superior to the crop protection business would you say that is a consistent trend or does the

crop protection business EBITDA margin substitute with your traction with the customers





in that business and there would be times when crop protection can actually do better margins than pharmaceuticals?

Sameer Hiremath:

So I think generally as an industry pharma business will have better margins than the crop business. Crop is definitely a more price sensitive market than pharma. So, from a margin profile, there is always difference between pharma and crop. But in crop again, the new products that we are picking are all higher margin products, complex technologies where there is less competition, so we will also be able to command better margins than historically what we have had in the crop products. The new molecules that we are launching in the crop business - CRAMS business and also our own products - are difficult to make products we will be single source, there will be one or two in the world that will be making this product, so we also see an uptick in the crop margins but they will not be as high as the pharma margin, but will be definitely be higher than where they are today.

Aditya Khemka:

Understood just a attached question to that now if I invert the question from margins to return on capital employed ROCE what I see is that it is the question opposite when I look at the ROCE so your crop protection business and I am not looking at the September quarter because it is a disrupted quarter for you, but I am looking more for the full year of FY2020 I see that segment assets liabilities if I net off the capital employed, the return on capital employed you make on the crop business is significantly better than the return on capital employed you make on pharma so what you say that is because you have many idle assets and pharma, the utilization is low or is that just the nature of the business, so pharma will offer you lower return on capital employed versus crop?

**Sameer Hiremath:** 

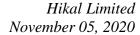
I think in pharma there is a lot of infrastructure expenses that are already put into the business which we have done upfront which you need to do few years in advance to meet the FDA compliance and standards. So that is much higher than the crop business where you do not have this infrastructure cost but as our utilization of our pharma and our volume grow, the ROCE of the pharma business will also start improving going up.

Aditya Khemka:

Sorry to harp on this but if I look at your segment results from pharma I am just looking at the EBIT and comparing it with the net capital employed segment assets minus segment liability what you are doing is basically a 10% or 12% return on capital employed whereas on the crop for FY2020 you are looking at more like a 20% return on capital employed so that is sort of made me curious as to you know why pharma is so low because when I look at other pharma companies especially present in the segment that you are presented they are doing comfortably north of 20% return on capital employed so can you just elaborate?

**Sameer Hiremath:** 

Our crop business is a 30 year old business, pharma business is a newer asset many of our crops assets are fully depreciated that is also one of the reasons why the crop for return on capital employed is higher, but the pharma business is new investment that we have done in





the last five-seven years so that is the reason why the numbers are slightly skewed but over a period of time they will even out.

Aditya Khemka: So if you were to put the crop capacity, the crop business capacity that you have if you had

to put it afresh what would it cost you, what is the replacement cost of your capacity?

Sameer Hiremath: I have not done that working, but if our turnover last year was Rs.600 Crores, Rs.620

Crores was the business last year it should be at least two times that the asset value to build a new asset from scratch because land everything has to be done here more than two times.

Aditya Khemka: And in this two times we are including the cost of land so I assume you own the land

currently that you have your crop protection capacity?

**Sameer Hiremath:** Yes all our sites are owned by us.

Aditya Khemka: Including the land. So one more question attached to this again many companies tend to

lease lands and tend to not own it so that their asset basically remains light and these leases can be long-term financial leases, 70 years, 90 years leases why do we adopt the strategy of

owning the land versus leasing it?

Sameer Hiremath: I think we are looking at a very long-term horizon and also we already acquired land several

years ago, they are a lot of place for expansion, we are not acquiring any land recently. This

has all been bought 20-30 years ago.

Aditya Khemka: Sir last question and it is again a follow-up on the answers that you gave so you alluded to a

lot of infrastructure costs in pharmaceuticals where you said that there is a lot of unutilized costs on the infrastructure side can you elaborate a bit more what is the sort of cost you are talking about what is the asset that you are talking about that is not really contributing

meaningfully to revenue?

**Sameer Hiremath:** Its quality control QA and QC that is usually expensive which are much higher. We have in

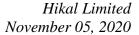
our pharma sites, waste water treatment plant i.e. zero liquid discharge, 100% recycle of wastewater so these costs are significantly higher than the crop business where treatment

costs are much lower.

Aditya Khemka: But that is always going to remain right I mean that is not going to sort of change with as

your business scales up you need to incur higher QA/QC cost on pharma moving ahead as well. What I am trying to basically grasp here is okay, so if I put it the other way at the current asset base that you have in pharma, what is the revenue potential that we can reach

and what is your capex plan both in pharma and crop protection?





Sameer Hiremath: Capex is Rs.300 Crores we have been saying that since the last two conference calls, about

Rs.150 Crores in both of businesses. This is being completed by Q1 FY2022 that has been

the capex plan.

Aditya Khemka: At the current base of the capacity that you have what is the revenue base you can reach

before you need any material expansion of capacity?

**Sameer Hiremath:** We are investing for growing because the plants can run out of capacity by next year so that

is the reason why we are investing in new capacity, we are currently running at about 80%

utilization in the business, so we will run out of capacity by end of next year.

**Aditya Khemka**: Okay which means your asset turns in pharma is actually close to one time?

Sameer Hiremath: Yes it is.

Aditya Khemka: But Sir again comparable companies to you do far better asset turns in pharmaceutical

segments so am I missing something here is a nature of business unique in some way that

we do lower asset turns?

**Sameer Hiremath:** So we have some older molecules and that is the reason why the assets turnover are low, the

newer products have an asset turnover in excess of 1.5x so as new products start coming in,

we will be phasing out some of the older products as well so then the whole asset turnover

Aditya Khemka: Okay how would you split your pharma revenue into older products and new products today

ratio of the pharma business will move towards the 1.5x blended numbers.

on the current revenue base?

**Sameer Hiremath:** Currently the older products are 75% to 80% in the range.

**Aditya Khemka**: Okay Sir that is great I wish you all the best and thanks for answering my questions.

Moderator: Thank you. The next question is from the line of Shravan Vohra, Individual Investor. Please

go ahead.

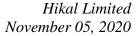
Shravan Vohra: I just wanted to clarify if I heard it correctly that the growth has been forecasting for this

year over last year is about 10%?

**Sameer Hiremath:** Yes for the full financial year as a company.

**Shravan Vohra:** We will see catch up on crop protection or will it largely to 10% growth would be pharma

only?





**Sameer Hiremath:** No they will be catch up. Q3 and Q4 of crop will be catching up.

**Shravan Vohra:** Will be able to maintain our pharma margins for the entire year like the quarterly margins?

Sameer Hiremath: I think so, I think we are pretty confident for this year. Business is confirmed, orders have

already been received for deliveries in coming quarters.

**Shravan Vohra:** Okay perfect thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Raj Rishi, an Individual Investor. Please

go ahead.

Raj Rishi: Right now the market is pretty favorable for raising funds and since you think the

opportunity is pretty large do not you think it would make sense to raise funds? Can you

just share your thoughts on this?

Sameer Hiremath: Well as of now we are pretty well covered with whatever capex we have lined up funds for

that. I mean, we will evaluate the situation in the next few months, if something large is required, we are always open. But as of today, we are not looking at any raising of funds.

**Raj Rishi**: Okay and what is your capacity utilization?

Sameer Hiremath: It is around 80% currently that is why we are doing the major capex that we have started

end of last year which will be over by Q1 of next year.

**Raj Rishi**: So Q1 of next year as in financial 2022?

Sameer Hiremath: It was supposed to get over by Q3, Q4 of this year but this was deferred because of COVD

so it will come on stream by Q1 FY2022.

Raj Rishi: And what sort of capacity addition would that be to the present capacity on a percentage

basis?

**Sameer Hiremath:** About 20% to 25% increase in capacity.

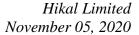
**Raj Rishi**: 20% to 25% okay thanks a lot.

**Moderator:** Thank you. The next question is from the line of Hasmukh Gala from Finvest Advisors.

Please go ahead.

**Hasmukh Gala**: Sir two questions one is that our effective tax rate is 34% so we have not opted for the new

scheme Sir?





**Kuldeep Jain:** We have not opted for new tax regime because we are carrying forward some MAT credits

and we are still evaluating the situation just half year has passed. We have to see if we can

opt for the new one, but certainly will be opting for it from the next year.

Hasmukh Gala: Next year okay and you have some deferred tax assets also?

**Kuldeep Jain:** We have deferred tax asset, but that does not make much of a difference from this particular

tax regime point of view.

**Hasmukh Gala**: Main is the MAT credit?

Kuldeep Jain: You are right.

**Hasmukh Gala**: Okay so next year you will take the decision?

Kuldeep Jain: Yes.

Hasmukh Gala: The second question is if I look at our annual report, we had mentioned in the sales details

that we got a compensation of Rs.19.79 Crores from a customer which was added to our total revenue of Rs.1507 Crores so in which particular quarter did it happen and what was the nature of that compensation and whether the associated costs were recorded in that

quarter or year or earlier year?

Sameer Hiremath: So it was for a pharma customer and the compensation was received for a calculation of a

project and that compensation was received in Q3 and Q4 it was for a project that we were

to execute in Q2.

Hasmukh Gala: Q2 and Q4 of FY2020?

**Sameer Hiremath**: Q3 and Q4.

**Hasmukh Gala**: Associated cost that we had incur must have been on a running basis probably?

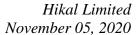
Sameer Hiremath: That's correct.

**Hasmukh Gala**: Did we gain anything out of that or no?

**Sameer Hiremath**: Yes we did. We made a gain out of that.

Hasmukh Gala: Another question is now as we progress you said that this Rs.300 Crores capex will be over

in Q1 of FY2022 then 2022-2023 what will be the normal capex that we will be having?





Sameer Hiremath: So typically we have a site capex that we have regularly which is about Rs.50 Crores per

year around and on top of that we will see I mean if something we need additional beyond that but I think that decision will take probably by end of FY2022 for the next round of capex depending on how the business is going. We will need more capex if you want to go to 15% plus every year we will eventually lift our capacity up in the next couple of years as well, so we will start planning next year again, it could be one year of pause in between but

we have to look at it, so capex will continue, as ours is a asset-intensive business.

Hasmukh Gala: As on September 30, 2020 I think our gross fixed asset was Rs.1,100 Crores plus we had

Rs.173 Crores in capital work in progress so say assuming that this Rs.300 Crores gets over in Q1 FY2022, our gross block will be somewhere close to Rs.1300 Crores or Rs.1400

Crores so how much maximum revenue we can generate out of that Sir?

**Sameer Hiremath:** About Rs.1800 Crores.

**Hasmukh Gala**: Okay thank you very much Sir.

Moderator: Thank you. The next question is from the line of Saurabh Ginodia from SMIFS Limited.

Please go ahead.

Saurabh Ginodia: I have two questions one is on the customer concentration side, if you can probably help us

understand what will be the contribution of top ten customers in both the business segment

and second question is on the export hedging side what kind of a strategy do we follow?

Sameer Hiremath: So concentration of customers, our top 10 customers on the crop business contribute to

about 75% of our business, top 10 customers, because as you know the crop business has very few large customers. The five or six big players contribute to 70% of the market and we have some smaller customers and generic companies as customers the top ten customers I would say 75%. While in pharma business our top 10 customers are slightly less they are

between 65% to 70% percent.

Saurabh Ginodia: Okay and some color on the export hedging side? I wanted to understand what kind of

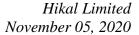
strategy do we follow on the export hedging?

Sameer Hiremath: So we have a natural hedge because of imports and we do not hedge we have kept it open

currently.

Saurabh Ginodia: So out of the total raw material requirement what percentage is import roughly?

**Sameer Hiremath:** Total imports are about 45% for the total raw material procurement.





Saurabh Ginodia: Okay and anything we are sourcing from China currently?

Sameer Hiremath: Yes Chinese imports are about 30% of our total raw material procurement, balance comes

from Europe and US and that 30% is coming down year-on-year, we are de-risking our supply chain very aggressively through domestic manufacturers as well as by sourcing out

of Europe.

**Saurabh Ginodia**: Okay that is all from my side.

Moderator: Thank you. The next question is from the line of Anshul Saigal from Kotak PMS. Please go

ahead.

Anshul Saigal: On the previous question of revenue potential and that from existing capex and existing

gross block we have visibility of Rs.1800 Crores in one of your previous con calls you had mentioned that the guidance given for revenues in FY2022 or not guidance, but our vision basically on revenues by FY2022 was Rs.2400 Crores that may get delayed by a year which means that by FY2023 will have possible revenues of about Rs.2400 Crores now to achieve

that number will we need to add further capex or this Rs.300 Crores capex is going to be

sufficient to achieve that?

Sameer Hiremath: Right I mean this 2022 number has been deferred by one year to 2023 so the current capex

will take us very close to that Rs.2400 Crores number maybe for marginal capex, nothing

major.

Anshul Saigal: Okay so got it and there is another point that you have made in one of your con calls about I

think this was in the fourth quarter con call where you mentioned that roughly Rs.50 Crores revenues will defer to the next two quarters because of COVID now how much of that Rs.50 Crores is something that you booked in the second quarter that is the previous

quarter?

Sameer Hiremath: So it went into Q1 most of it. Most of it was booked in Q1 so this quarter had no spill out,

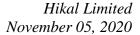
because as I mentioned in my call in June when we had that is that April and May utilization were very low because of the lockdown and COVID so carry forward of Rs.50 odd Crores from Q4 went into Q1 as we realized almost fully in Q1 nothing was moved into

Q2.

Anshul Saigal: Okay and my third question is that you had two or three CDMO products and one or two

own products which were in the pipeline, any color that you can give on these products and

what has been the progress on this?





Sameer Hiremath: So they are progressing well and they are moving ahead I mean they are all positive it is on

track, the new capacity that is being coming on will cater to this business.

Anshul Saigal: Okay. I think that will be it from my side. Thanks and I wish you all the best great numbers

on the pharma side for the quarter.

Moderator: Thank you. Ladies and gentlemen due to time constraint that was the last question. I now

hand the conference over to Mr. Sameer Hiremath, Joint Managing Director and CEO for

closing comments.

Sameer Hiremath: Thank you. I would like to reiterate that looking at current operating environment, we

expect much better performance in H2 as compared to H1 and anticipate overall growth in performance for the current financial year over the last financial year. I would like to take this opportunity to thank everybody for joining the call. I hope we have been able to address all your queries. For any further information kindly get in touch with the Strategic Growth Advisors, our investor relations advisors. Thank you once again. Have a great day and wish you all a very happy Diwali and Prosperous New Year and please stay safe and healthy.

Thank you very much.

Moderator: Thank you. Ladies and gentlemen on behalf of Hikal Limited that concludes this

conference. Thank you all for joining us and you may now disconnect your lines.