



“Hikal Limited  
Q4 FY2020 Earnings Conference Call”

June 19, 2020



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*Hikal Limited*  
*June 19, 2020*

**Moderator:** Ladies and gentlemen, good day and welcome to Hikal Limited Q4 FY2020 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on beliefs, opinions and expectation of the company as on date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” 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 and CEO. Thank you over to you Sir!

**Sameer Hiremath:** Thank you. Good afternoon and a very warm welcome to everyone present in our annual earnings call. I hope you and your family and colleagues are safe and taking care of yourselves in the difficult times. I am Sameer Hiremath, CEO and Joint Managing Director and also with me, I have Anish Swadi – President, Business Development and Strategy, Kuldeep Jain - Financial Controller and Strategic Growth Advisors, our Investor Relation Advisors.

Let me start by giving the updates on our current state of operations amongst the COVID-19 situation. Post the announcement of the lockdown by Government of India on March 25, 2020, we had shutdown our operations safely at all our facilities. Being a part of the essential services of the industry after getting all the necessary permissions from the respective government authorities, we were able to restart our operations for April 5, 2020.

Post receiving approval to restart our operations; it took us between 10 and 15 days to normalize the operations and to start production in a safe manner. The capacity utilization for the month of April has been low; however, the utilization has improved to around 60% in May and currently in the month of June, we are operating at around 80% utilization across our manufacturing plants. With the partial easing of lockdown restrictions, currently we have approximately 75% to 80% manpower working at our manufacture units. As the safety of our employees is paramount we have taken all the necessary precautions advised by the Government of India and the WHO.

During the COVID-19 lockdown, we have implemented several cost rationalizations and efficiency improvement measures across the company. These include increasing our domestic sources of key raw materials as well as investing in increasing automation, mechanization and implementing industry 4.0 initiatives, which will lead to improvement in operations efficiencies going forward. On a positive note, we are receiving several enquires from customer who are planning to derisk the supply chain. Our business continues to be

robust with no major impact on demand for our products. We would like to state that there has been no cancellation of any orders and we continue to be optimistic from the long-term prospect of both our division businesses.

On the raw material supply side, we had initially experienced several logistical issues due to restriction in movement for goods, which has been resolved to a large extent. Having said that we are still facing few instances of delay and nonavailability of some raw material and we are taking necessary action to mitigate these risks. We are also working toward derisking our supply chain by developing domestic sources of all our raw materials wherever possible.

Now moving on to the financial performance, revenue for FY2020 is Rs.1,507 Crores as compared to Rs.1,590 Crores last year. If you adjust the same for impact of lockdown in quarter four FY2020 and the impact of production disruption in quarter two of the last year, the revenue would have been similar to FY2019.

The EBITDA for FY2020 is Rs.273 Crores as compared Rs.298 Crores last year. We were able to maintain our EBITDA margin above 18% for FY2020. Our PBT for FY2020 was Rs.142 Crores as compared to Rs.149 Crores. PBT for FY2020 is before adjustment of exception expenses of Rs.15.4 Crores.

The net profit for the year before exceptional items is Rs.96 Crores and Rs.84 Crores after adjusting for exceptional expenses as compared to Rs.103 Crores in FY2019.

The Crop Protection Division recorded revenue of Rs.620 Crores for FY2020 as compared to Rs.650 in FY2019. This division has an EBIT of Rs.100 Crores in FY2020 as compared to Rs.112 Crores in FY2019.

The Pharmaceutical Division recorded revenue of Rs.887 Crores for FY2020 as compared to Rs.939 Crores in FY2019. The EBIT for FY2020 for Pharmaceutical Division is Rs.128 Crores which was similar to the FY2018 EBIT for Rs.129 Crores.

The additional capacity at Bengaluru which came on stream on the second half of the last financial year also started contributing to revenues. Both our sites at Bengaluru and Panoli also got recertified by the US FDA last year.

During the year, we have filed three new Drug Master Files for our generic business. On the Contract Manufacturing side, we have several products in various stages of development, which will fuel our growth for the coming years. We have successfully developed the API for Favipiravir at a pilot scale and are currently supplying test quantities to clients.

Favipiravir is currently in clinical trial for the treatment of COVID-19 across the world. We are currently scaling up the product and expect to commercialize the product by September / October of this year. There is still a regulatory process that has to go through and thus it is still early to give the demand and the revenue potential as of now.

During the year, we have reduced our gross debt by Rs.16 Crores from Rs.661 Crores on March 31, 2019 to Rs.645 Crores as on March 31, 2020. Our net debt has also come down from Rs.629 Crores on March 31, 2019 to Rs.581 Crores on March 31, 2020, which is a reduction of Rs.48 Crores. Our debt equity ratio has improved from 0.79 on March 31, 2019 to 0.69 on March 31, 2020. We have met all our debt obligation during the year and even during the COVID-19 pandemic we have not opted for the moratorium option and are confident of meeting all our future obligations. We have seen improvement on the working capital front as well. Our net working capital days as on March 31, 2020 is 110 days as compared to 120 days as on March 31, 2019, which translates into improvement of Rs.47 Crores.

We are continuing with our capex plan across both the segments. During the COVID-19 lockdown, the construction activity was completely stopped; however, with the reduction of the lockdown currently, we will be resuming construction activities shortly at our sites. Currently, the availability of skilled manpower has been a challenge due to this ongoing pandemic and we are discussing with various contractors to provide skilled manpower on a long-term basis. Due to the pandemic, the commissioning timelines will be pushed back by a few months. As per the current estimates, we expect to complete the capex program by end of FY2021.

As on March 31, 2020, out of the total capex of Rs.300 Crores, we have already spent Rs.158 Crores and the balance would be spent in this financial year. As our current capex towards multiproduct plants which provides us with flexibility to manufacture various multiple products, we are confident of improving our return on capital employed going forward.

The net cash inflow of operating activity before exceptional item is Rs.219 Crores for FY2020 as compared to Rs.115 Crores for FY2019. Adjusting for exceptional item, the net cash inflow from operating activities for FY2020 was Rs.204 Crores. Free cash flow generated for the year was Rs.61 Crores compared to a negative free cash flow of Rs.12 Crores last year.

In conclusion, I would like to apprise you on two important developments. Hikal has been recertified for the second consecutive year as part of the great places to work, last year in top 100 companies in India and this year we have been ranked in the top 50 companies in India. Secondly, in line with our core values, we have supported the Centre and State governments and contributed over Rs.2.5 Crores towards fighting COVID-19. A significant part of the expenditure has gone to distribution of food, masks and medical equipments to those in need.

With this, we can now floor to questions. Thank you.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

**Sudarshan P:** Sir my question is on the Crop Protection business, I mean if I look at all other companies reporting numbers whether they are directly into agri imports or in contract manufacturing, most of the companies have given a very good outlook both for the domestic and export, but if I look at our number for the fourth quarter it looks like it is being fairly kind of flattish over on a year-on-year basis. Can you give some color on this I mean when can we expect the traction to happen over here, what is the kind of growth that we are seeing in the domestic and export and if you can give some color on how much do we derived from domestic and how much do we derived from the export on annual basis?

**Sameer Hiremath:** The reason for the Crop Protection business being flattish for this year because there was some inventory correction from some of our major customers from the last financial year. This year we expect that their inventory correction to be over. Exports are a large part of our business on the Crop Protection business, almost 80% of our revenues come from exports about 20% come from the domestic business and we are expecting the growth to start coming in from this year and from next year onwards, mostly from next year onwards because this year there is lot of uncertainties due to COVID depending on the plants can meet the full capacities. We expect to go to start resuming from the next financial year.

**Sudarshan P:** Sir with small capacities addition that happened last year and I think you had also mentioned that by the end of this year this Rs. 300 Crores capex is expected to complete and probably that will come in FY2022. Currently, what will be the utilization across both the divisions and if the new capacities coming in I mean how do we see the traction and what can be the kind of sales from the current capacity and new capacity?

**Sameer Hiremath:** Currently, the plants once you get back to full operations were running at about 80% to 85% utilization that is the current capacity utilization right now. The capex expected to be

completed, there has been a delay as you know because of the COVID last two to three months, it will get completed by end of this financial year and we expect the revenues to start rolling in from FY2022 and FY2023 will be the full impact on the revenues.

**Sudarshan P:** Here we can see an asset turn of about 1 time to 1.5 times of this Rs. 300 Crores?

**Sameer Hiremath:** About 1.5 times.

**Sudarshan P:** Just one final question from my side is if I look at especially the pharmaceutical part of the business, I mean we have a legacy portfolio and a lot of the products that we filed for are in this diabetic new generation portfolio, but if I look at primarily the margins on an overall basis the gross margins, it does not seem like the contribution from new generation has actually started kicking in. Can you give some color with respect to when we can start expecting the new generation molecules picking in and when the benefits can actually start coming through from that side?

**Sameer Hiremath:** Well, the products are being launched. We filed a few DMFs last year and we are expecting the benefits to start coming in from FY2022-2023 onwards. Some will come this year but there will be a big jump 2022-2023 onwards when the products get launched.

**Sudarshan P:** Okay but we have launched some products right from the new generation?

**Sameer Hiremath:** Yes. But they are small quantities. It takes time.

**Sudarshan P:** What I am trying to understand is should we see because if I look at currently the majority of the products revenues are basically coming from legacy product like Gabapentin, etc., then over the next two to three years should we start expecting that the legacy molecules start contributing much, much lesser and there should be a visible contribution from this new generation molecule?

**Sameer Hiremath:** Legacy will become a less minority in the next three to four years and new products will take over and percentage of total sales.

**Sudarshan P:** Margins should also be significantly better for the new generation, I would assume?

**Sameer Hiremath:** For sure.

**Sudarshan P:** Perfect and any clarity on the Favipiravir if I look at this opportunity, what is the kind of opportunity when you are looking at India and emerging market over here, if you can give some color with respect to what is the kind of volumes that one can look at and what is the kind of opportunity, whether it will be meaningful or whether it will be insignificant

because given that we have developed this product in a record time, so that should be quite helpful even that this opportunity is happening primarily by the third or fourth quarter?

**Sameer Hiremath:** The clinical trials are currently underway. We need to wait and watch and we should have a better idea in the next couple of months, I think it will be too early to make any comments on the potential right now. With lot of interest, lot of people are contacting us, we are sampling many customers, but everyone is waiting for the clinical trial results to come out, it is currently underway in many countries.

**Sudarshan P:** Thanks a lot. I will join back in the queue.

**Moderator:** Thank you. The next question is from the line of Anand Bhavnani from Unifi Capital. Please go ahead.

**Anand Bhavnani:** Thank you for the opportunity. Sir my question is about the capacity plans for the new capex. So how much of the new capex would be absorbed by existing set of products and how much of it is kind of amassed for newer products if you can give us a broad split?

**Sameer Hiremath:** For existing products it is about 40% to 55% and new products will be the balance. We also have to keep some free capacity in existing plants because we are also looking at contract manufacturing opportunities that are coming along. It is a combination.

**Anand Bhavnani:** Sir you mentioned FY2023 would be the first year of this capex that will be fully commercial. So in our overall planning, we are expecting to be fully utilized by FY2025 in three years, FY2026 what is the best case expectations that you are having?

**Sameer Hiremath:** Looking towards the end of the FY2023 to fully utilize the plants because the products are already lined up for it. We have already filed the DMF, the customers have already taken trial quantities and we were just ramping up the volumes.

**Anand Bhavnani:** Sir any of the capex that you have done, do you have any take or pay kind of arrangement or is it more of soft indication that products will be lifted and we have planned?

**Sameer Hiremath:** All our plants are multipurpose plants so we have multiple products. On the few on the contract manufacturing side, take or pay is there, but on the generic side, I mean take or pay does not exist but we have relationship with existing customer and we have broadened our product base, this means any single customers any single product, it is multiple products, we can move products around.

**Anand Bhavnani:** Any capex to be done after this particular capex is done at the end of this year FY2021, for FY2023, do you anticipate further capexes or then it will be more of maintenance capex?

**Sameer Hiremath:** It all depends on opportunity, I mean there is a lot of talk of manufacturing moving from China to India, you must have seen Government of India also incentivizing the pharma industry in a big way, the policies being written up, and is expected to be launched early next month. We are seeing lot of opportunities and we take them on a case to case basis, if there is opportunity that really demand capex, we will really look at that and we will consider that. As of now, this is what we are doing but if new client or opportunity presents itself, we do not shy from it.

**Anand Bhavnani:** Sure. I will come back in the queue.

**Moderator:** Thank you. The next question is from the line of Rohit Nagaraj from Sunidhi Securities. Please go ahead.

**Rohit Nagaraj:** Thanks for the opportunity. Sir you have given the Crop Protection segmentation between the exports and domestic. Could you give the same for pharma and for overall for this year? How has been the exports and domestic business, split up in terms of percentage?

**Sameer Hiremath:** Pharma, it is mostly export. Domestic business is a very, very small percentage and US is about 45% to 50%, Europe is about 20% odd, Japan is approximately 10% and growing rapidly and the balance is Rest of the World, Southeast Asia, Latin America, Central America is about 20%. But our plan is to grow at domestic business in both of these divisions, we are seeing a lot of opportunities in the domestic side and some of our new molecules that being launched especially with diabetes portfolio on the pharma side have a big market in India, so will be launching them in India shortly.

**Rohit Nagaraj:** Okay and out of Rs. 1,500 Crores revenue for FY2020, how much would be exports and how much would be domestic?

**Sameer Hiremath:** Exports was about 80%, total and domestic was close to 20%.

**Rohit Nagaraj:** In terms of molecules, so currently how many molecules do you have in both pharma and crop protection, and how it has changed over the last three years, so there must be some cutting of some of the molecules and new molecules would have got added, how has changed over the last three years?

**Sameer Hiremath:** Currently pharma we have about 9 to 10 products in the manufacturing side and about 14 to 15 on the proprietary side. Every year we add a few, and net addition is one or two in the



CRAMs or one or two in the proprietary every year, I mean tail products are removed but we do not try and do too many products, we try and do a few but we try to be market leaders in the molecules, so it is not that the molecules, limited products, but we try to be number 1 and number 2 in the world in this product.

**Rohit Nagaraj:** Right and same from CP, Crop Protection?

**Sameer Hiremath:** On Crop Protection, we have our 11 to 12 major products in the CRAMS side and five to six on the proprietary owned product side. Again we are adding a couple of CRAMS product every year and maybe one or two proprietary products in a year, there is no change.

**Rohit Nagaraj:** All right. Thank you so much. Best of luck.

**Moderator:** Thank you. The next question is from the line of Viraj Mehta from Equirus PMS. Please go ahead.

**Viraj Mehta:** Sir if I look at the gross margin in our business, in FY2020 our gross margin has substantially improved compared to FY2019, what would you say the reason for the same is?

**Sameer Hiremath:** We concentrated on product mix especially in quarter four, I mean if you notice in spite of our lower sales our EBITDA margin actually improved in quarter four. So we are concentrating on product mix for the year.

**Viraj Mehta:** Right and Sir second question is more on the strategy side, I mean if look at the top in terms of lot of companies are getting a lot of enquiries from European suppliers and Japanese end users for shifting some portion of the products to India, I mean this is the time for us to utilize the capex that you have done over so much years, and after very soft revenue growth for last two years, do you see this year as a inflection point for us for rapid revenue growth over next one or two years?

**Sameer Hiremath:** Well the number of enquires have definitely increased considerably in the last few months and you are right I mean there has been a number of enquiries are coming and we are having a good manufacturing footprint, and environmental clearances in place and it is definitely very big positive for us and we have been able to utilize our capexes for more higher margin products so they are going to relook at taking also older products replacing in current product portfolio with higher margin products. The emphasis will be on margins and improving return on capital employed and cash flows going forward, which we are quite confident that we can do with the new products.

**Viraj Mehta:** Just last question, in the AGM, you had mentioned that we should be able to do Rs. 2,500 Crores revenue by FY2022, now do you see that happening at least by FY2023?

**Sameer Hiremath:** It think, realistically there is about one year delay as of now.

**Viraj Mehta:** Thank you.

**Moderator:** Thank you. The next question is from the line of Rahul Jain from Credence Wealth. Please go ahead.

**Rahul Jain:** Thanks for the opportunity. Sir, my first question is about this margins, of course the gross margin improvements we have seen in the last year, but what I observe is that gross margin does not go down and our EBITDA margins we are not seeing the improvement. So, gross margins are up by almost about 2%, 2.5% points, but our EBITDA margins are either similar or in fact they are down by 0.5% compared to March 2018 and March 2019 both. So, there is a challenge in terms of the better gross margin not being able to percolate down to our EBITDA margins and you mentioned that coming year we can see because of product mix changes, because of better product profile, so can we see a margin improvement in this current year FY2021 and to what extent?

**Sameer Hiremath:** Well, I think the reason why the gross margins are not percolating down to the EBITDA margin the fixed costs have remained the same in spite of lower sales, that is the only reason why the EBITDA has gone down in percentage terms. Especially Q4 if you look like and Q2 we had a major reduction in sales for the reasons already mentioned and explained. For the fixed cost was fixed. Going forward I means the margins are expected to improve, the new launches will have a better profile and that along with the operational efficiency measures that we have implemented we are confident that our margins will start improving from this year onwards.

**Rahul Jain:** Can we see a 100 to 200 BPS increment this year, is that possible?

**Sameer Hiremath:** I think with the current situation, I do not want to give any guidance for the current financial year. There is lot of fluidity. There is lot of uncertainties in the external environment. It will not be prudent. A better picture probably next few quarters, how the things are looking out.

**Rahul Jain:** Sir, on the pharma side, if you could just share some details on the volume and pricing path, because you had degrowth in pharma segment and how much therefore should be due to pricing and how much of it could be due to volumes?

- Sameer Hiremath:** Volume growth was about 6% to 7% and price increases were about 1%. So net was about 5% reduction, if you look at the net reduction, approximately. I mean to give you a ballpark number.
- Rahul Jain:** Have we lost any client on the pharma side?
- Sameer Hiremath:** Not at all.
- Rahul Jain:** Sir what I am trying to say is in terms of topline growth we have completed Rs. 160 Crores of capex.
- Sameer Hiremath:** It is WIP, work-in-progress. It is not completed capex. These are all plants being done in multiple sites and they are all in work-in-progress, some are infrastructure capex, some are growth capexes, they were all supposed to get done by end of Q2 and early Q3. That was the original plan. Due to this COVID situation, we lost about three to four months.
- Rahul Jain:** So, it is not block-by-block completion of capex?
- Sameer Hiremath:** No, we do at multiple sites. Everything is WIP, it is work-in-progress. We already said that this capex will be implemented over 12 to 18 months even in the last call.
- Rahul Jain:** I know that. I thought maybe some part of it is and maybe a block is ready. So it related to basically topline growth only in this year current year we faced an abnormal situation in terms of flooding in one of our plants and because of which we lost certain amount of business and also inventory destocking and post Q2 concall or in Q2 concall, we had mentioned that some of it we will be able to recoup. This is not visible in this current year.
- Sameer Hiremath:** Q3 we did have some recoupment but in Q4 I am sure simply we lost sales because of the COVID situation. So, if we did not have the COVID situation, we would have seen this recoupment of Q2 reduction.
- Rahul Jain:** Thank you so much. In case, there are further questions, I will come back.
- Moderator:** Thank you. The next question is from the line of Sunil Kothari from Unique Asset Management. Please go ahead.
- Sunil Kothari:** Thank you for the opportunity. My question is we hear a lot about this India manufacturing outsourcing, China issues, second source and you being the risk agency, which is very long, what you offer, can you share a larger picture what essentially this is a story you are hearing or on ground things are happening?

- Sameer Hiremath:** I think a lot of good things are being said, implementation on the ground has to happen. I will just leave it at that.
- Sunil Kothari:** Clients enquiry you are getting because you are since long with so many MNCs, so are you getting more enquiries something like that?
- Sameer Hiremath:** We are for sure getting enquiries.
- Sunil Kothari:** Second is related to this, can you throw some light, we were telling that we will be able to reimburse from our customers. What is the status now?
- Sameer Hiremath:** Part of it has been taken care through increased volumes, and the part will be taken care of this year. We are getting additional demand from the customers to make up for this impact in volumes.
- Sunil Kothari:** Balance sheet shows some right of used assets of Rs. 66 Crores, what exactly is this?
- Kuldeep Jain:** We had adopted Accounting Standard 116 from this year. Under this standard we had to classify the lease of land as right to use assets. This is just a classification from the normal blocked assets to right to use assets.
- Sunil Kothari:** So, it is leased assets which you may be using.
- Kuldeep Jain:** Land we have, you know, we have land from MIDC especially in Maharashtra that we reclassify them to right to use, nothing else.
- Sunil Kothari:** Thank you. Thanks a lot. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Sajal Kapoor, an individual investor. Please go ahead.
- Sajal Kapoor:** Thanks for taking my question. Firstly roughly 38% of our consolidated sales are from generics and the rest 62% comes from custom synthesis or contract manufacturing so 50% is pharma in that and 80% crop protection that is all actually innovator CDMO. Now given on a blended operating margins only at 18% and I know some of the other participants have been asking this question as well. I am just trying to get the math correct here, so the generics business seems more like a pure commodity with very low margins because that is kind of dragging the CDMO margins lower and we get a consolidated figure of 18% because my assumption is that on the innovator CDMO, you will not be making anything less than 25%, I mean the competitors like Suven and Divis are closer to 35%. I am just trying to understand is the generics what sort of margins we are making on the generic side

because majority of our business if I do a Rs. 1,500 Crores split of the pie, I think Rs. 936 Crores or somewhere in that region is innovator synthesis that is CDMO and that must be 25% plus sort of margin, but on the consolidated side, the margins are only 18%, which means that the generics business is pure commodity with very low margins because that is kind of resulting in a blended margin of 18% despite the fact that the custom synthesis on the innovator side is a higher margin business. So if you could just help us out please?

**Sameer Hiremath:** I think the custom manufacturing business does have a better margin profile than the generics but as a company we do not have the numbers of what margins we make on both the divisions, both part of the businesses, but we have some older molecules that have a lower margins, so we are replacing that with newer volume products, higher margin generics also, which have been launched. So the margin profile will change going forward.

**Rajan Kapoor:** Yes, but currently, I think it is somewhere because it is easier to do that Rs. 900 crores plus sales giving 22%, 23% or may be 25% margins and the other half which is the generic is going somewhere in the region of 8% to 10% margin at max. So, we appreciate that maybe three to five years down the road we may be getting over 20%, but I just wanted to get your sense that some of the Gabapentin maybe some of the older molecules, where they are just pure commodity APIs, they may not be fetching more than 8%, 10%. That is my understanding. Secondly, I mean would be possible to share the pipeline on the innovators number of molecules not the names of the customers, but in terms of the number of molecules that how many we have on the phase 3, phase 2, preclinical that sort of split because some of the other companies do share that and it kind of gives us a lead indicator in terms of what to expect over the next two, three years, but in our case, in case of Hikal, we do not get that visibility, so we do not know how many projects are there in phase 3, phase 2 and so on.

**Sameer Hiremath:** I will hand this over to our Head of Business Development. Anish, if you can take this.

**Anish Swadi:** Thanks Sameer. We have a pipeline in both our divisions. In the pharma division we have a mix of products that we have under our pipeline of contract development. They are basically anywhere between four to five products at any given time in our CDMO division. I would say none of these are finished APIs. They are all early stage products. So I would say majority of the four to five, there are about three in the phase 2 type 2A, 2B and about one in phase 3. Now these are again intermediates, some of which go into multiple products. So it is a little challenging to kind of forward and tell you what is going to be the potential, but this is really where the pipeline is.

**Rajan Kapoor:** So, four to five in phase 2/early phase 3. That is all we have on the innovator synthesis pipeline?

**Anish Swadi:** That is correct. These are again intermediates that go in some times. In most of these products we do not even know what the final usage is going to be because they are all coded and then there are building blocks that go into other products.

**Rajan Kapoor:** Thank you so much. Thank you.

**Moderator:** Thank you. The next question is from the line of Anupam Agarwal from Lucky Investment Managers. Please go ahead.

**Anupam Agarwal:** Good evening everybody. Thank you for the opportunity. Sir, my question is if you could just repeat the volume and the price growth for the year across both divisions?

**Sameer Hiremath:** I said volume was about 6% to 7% lower and price was about a percent higher.

**Anupam Agarwal:** It is little more or less the same across both the divisions?

**Sameer Hiremath:** I said average across both the divisions.

**Anupam Agarwal:** Sir, on the COVID on the topline, what sort of phase we must have either deferred or lost in the last 15 days of the COVID situation?

**Sameer Hiremath:** In Q4 we lost around Rs. 50 Crores.

**Anupam Agarwal:** Is this deferred to Q1 or have we booked the sales here?

**Sameer Hiremath:** Partly it will be taken care of in Q1 and partly in Q2. The sales have not been lost.

**Anupam Agarwal:** So, it is already booked in Q1?

**Sameer Hiremath:** Part of it, the majority of it, and some remaining will go into Q2 because some of our customers have not started off fully in April, May, they are just starting up operation now. So they have also had capacity constraints. So they have taken most of it and some will carry forward to Q2, but there is no loss in absolute revenue. It will be just deferred by one quarter or two.

**Anupam Agarwal:** Sir, on the product pipeline, we understood the pharma side of it, can you explain this on the Crop Protection side of that?

**Sameer Hiremath:** On the Crop Protection side, we had two to three products in the CDMO pipelines and in addition to which we have at any given time, we work on one to two of our own proprietary products, so that is the current pipeline that we have.

**Anupam Agarwal:** Could you quantify the size of the total pie?

**Sameer Hiremath:** At this point in time, they are all early staged projects, so we work with various global innovators, both across Europe and Japan and the US. So, some are in initial stages of evaluation. These products are in what I would call where we give the samples to the clients, working on process development and eventually they go with the Crop Protection business differs from the pharma business in the sense that once you do commercialize or you do get a product, it takes a long time to commercialize because registration is country-by-country, it is not pan European as in the case of pharma, but at any given time we ensure that there is a pipeline of products or projects that are about two to three on the CDMO side and about one to two on our own proprietary side.

**Anupam Agarwal:** Last question if I may, what is the plan on our debt reduction if you could just give us a strategic pathway because on a debt equity we are comfortable at 0.2 times to 0.3 times but to quantify the debt to EBITDA is slightly more on the higher side 1.5 times. So, are we comfortable there or do we have some plan on debt reduction?

**Anish Swadi:** I think our equity ratios have improved year-on-year and if you look at the company going back 10 years we had more or less the same amount of debt as we have today but we are 2.5 times bigger. We are in the capex stage, so we are continuously investing all the money or significant amount of money that we generate back into the assets of the company so that we can grow. The growth assets that we are putting into place are obviously going to be higher margin products that we have here, so that run rate that the new products, the new investments that we do will help us payback the debt, but again, this is a very high intensive capex type of business. Again, if you do not invest like today, as Sameer has talked about the China opportunity, we definitely do see an opportunity coming, we have seen the traces of it from customer enquiries, we are also seeing possibly a macro shift that will happen. It would not happen over the next six, 12 months, but maybe over a bit of a longer period, 18-24 months because it is not possible to just change your supply chain overnight. So in order to capitalize on that you definitely have to have assets on the ground available and these have to be a certain extent free assets because companies do not wait, so we continuously juggle around to see what the best mix of filling our assets and also there are spot opportunities that we do get. For example, Favipiravir, it was a spot opportunity that came, we developed the product very fast and we are fitting it in our existing manufacturing assets as well. So, we will continue to invest, we will continue to payback the debt, we have an excellent track record with our bankers, and our debt rates have also come down significantly.

**Anupam Agarwal:** Working capital sustainability are we comfortable at 100 days or so?

**Anish Swadi:** Given the current situation of course that might fluctuate up and down, but consistently over the last two years, we have reduced the working capital cycle. Obviously now the situation has changed in the sense that people are asking us to maintain more stock. We ourselves are looking at safety stock situation because just in time inventory is probably gone in today's environment. Will it be gone forever? Probably not, but the next 12 to 14 months we will be watching this very closely. We have norms in place, but our focus is going to be on making sure that we ensure delivery to our customers, supply chain security is going to be the number one focus of the company.

**Anupam Agarwal:** All the best for the future. That is all from my side. Thank you.

**Moderator:** Thank you. The next question is from the line of Rohit Nagaraj from Sunidhi Securities. Please go ahead.

**Rohit Nagaraj:** Thanks for the followup. One clarification, you have indicated that FY2023 will be full utilization for our incremental Rs. 300 Crores capex, so that is where we expect about Rs. 400 Crores to Rs. 450 Crores of revenues. Is that assumption right?

**Sameer Hiremath:** Part of that capex also includes some infrastructure capex. You can take some of that out.

**Rohit Nagaraj:** When you said you want to expand into domestic market, so currently pharma is 100% exports and crop protection is 80%, what is the strategy here and what are the segments that we are targeting here?

**Sameer Hiremath:** On the crop side, our biocide business we already have a presence in India. We are also getting registration for some crop protection products in India where we have seen the molecules that were typically imported from China in the past by the domestic demand, so we are launching some active ingredients in the domestic market next year, and by the end of this year we should have all the registration in place. Pharma again at present domestically has been negligible, but we are seeing opportunities on the cardiovascular side and on the diabetes portfolio that we have filed and we expect to increase our presence in the domestic market. Again, we are looking at niche opportunities in India and some of the new molecules that we will be launching in the country.

**Rohit Nagaraj:** In terms of expansion after 2023 what is the strategy in terms of the land bank? Do you have sufficient land bank for further Brownfield expansion or will have to go in for some new areas?





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*June 19, 2020*

**Sameer Hiremath:** In Bengaluru site and our Panoli side, we have almost 40%, 50% additional land available to grow, so I do not see any requirements for the next four to five years from land requirement. We are covered right now.

**Rohit Nagaraj:** Just one last question on the sourcing front. Currently what you are sourcing from China and what do you expect probably to reduce over the next one year because as you said in your opening remarks that we are scouting for domestic sources of key raw material?

**Sameer Hiremath:** Currently, about 35% to 40% of our total procurement comes from China. So, we have already started the process even before the COVID to derisk China and to move to domestic manufacturing and we expect this to come down to 22% to 25% in the next one year and even towards 20% in the next two years. That is our target. Some products we still have to buy from China, but we have multiple supplies in China also, but we will bring it down. Essentially we will have to bring it about 20% in the next 18-24 months.

**Rohit Nagaraj:** Thank you so much. Best of luck.

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

**Sameer Hiremath:** I would like to take this opportunity to thank everybody for joining the call. I hope we have been able to address all of your queries. For any further information, kindly get in touch with Strategic Growth Advisors, our Investor Relations Advisors. Thank you once again. Please stay safe and stay healthy. Have a very good evening. Thank you very much.

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