



Hikal Limited

Q3 FY 24 Earnings Conference Call

February 09, 2024

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Moderator:

Ladies and gentlemen, good day, and welcome to Hikal Limited Q3 FY 24 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance, during the conference call, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded.

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 morning, and a warm welcome to all of you. We extend our gratitude to all of you for participating in our Q3 and 9MFY24 results conference call. We are delighted 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 and 9 months ended December 31, 2023. These documents can be accessed on both Hikal's official website and the stock exchange's website.

I am Sameer Hiremath, Managing Director, Hikal Limited, and I'll be leading a discussion and presenting the financial results. Joining me on the call I have Anish Swadi, our Senior President, Business Transformation; Kuldeep Jain, CFO; Manoj Mehrotra, our President, Pharmaceuticals business; Vimal Kulshrestha, our President, Crop Protection business and Strategic Growth Advisors, our Investor Relations Advisors.

The global chemical industry continues to witness turbulence on the back of destocking situation coupled with intense price competition, predominantly in the crop protection industry. It is further intensified with increased interest rates and a delayed recovery. We expect the demand situation to normalize towards the end of H1 FY '25.

The pharmaceutical industry is witnessing signs of improvement. The raw material prices have softened and stabilized, which is widely acknowledged and aiding the sector's recovery. In this operating environment, we are focusing on enhancing operational efficiencies, optimizing costs through several business initiatives.

During the quarter, our revenues stood at INR 448 crores, EBITDA at INR65 crores, with EBITDA margin at 14.5%, an increase of 70 basis points on a Y-o-Y basis.

For 9M FY '24 revenue stood at INR1,271 crores. EBITDA stood at INR173 crores, with EBITDA margins at 13.6%, an increase of 230 basis points on a Y-o-Y basis. Also, the Board of Directors has approved an interim dividend of 30% for FY '24. We expect the performance to gradually pick up and operating leverage is expected to improve.

In our Pharmaceuticals business, we witness an improvement in margin profile as well as in volumes. Efforts over the last couple of years have started yielding positive outcomes, and we have started receiving regulatory approvals along with strengthening of our customer base across Japan, Latin America and Middle East geographies in the API segment.

Our new multipurpose plant for Animal Health has been commissioned at Panoli, Gujarat towards the end of Q3 FY '24.

In the Crop Protection business, inventory destocking continues to impact the overall industry. Proactive implementation of cost improvement program has helped us in navigating industry-wide challenges and maintaining the margin profile. Recovery towards the end of H1 FY '25 is expected to result in favourable operating leverage and an improved margin profile. While we acknowledge the near-term industry-wide challenges, we expect the market trajectory to improve over the next few quarters. We are well positioned across our businesses for long-term profitable and sustainable growth.

Now I'd like to hand over to Manoj, who will provide an overview of the Pharmaceuticals division performance. Over to you, Manoj.

Manoj Mehrotra:

Thank you, Sameer, and good morning, ladies and gentlemen. We'll start with the financial performance for Q3 FY '24. Pharma business reported revenue of INR267 crores, EBITDA of INR18 crores and an EBIT margin of 6.9%. For 9MFY '24, Pharma business reported revenue of INR763 crores, EBIT of INR40 crores and EBIT margin of 5.2%.

On a sequential basis, there is revival in operating profit, which is up 56%. We are witnessing good traction in Pharma business, aided by our API business. On a Y-o-Y basis, the raw material prices have softened and have stabilized. This, along with the implementation of a variety of measures to enhance cost effectiveness and optimize operational procedures has led to improved margins.

On the API business vertical, we are witnessing good traction on our API business on both Q-o-Q and Y-o-Y basis. We continue to increase our market share in legacy product portfolio. Regulatory filings as a part of business expansion project in various geographies have started yielding results. We have a robust pipeline with 8 to 10 products under development, and we are on track with a target to launch 3 to 4 products every year.

For the CDMO business, in Q3 FY '24, the destocking situation continues to affect our CDMO business. We anticipate the normalization of the CDMO industry in the coming quarters. We maintain a robust pipeline of projects in the CDMO space and actively pursue additional opportunities that have arisen in recent quarters. We are in continuous discussion with our existing innovator customers and our healthy flow of inquiries for an increased share of their business.

The 2 opportunities in Phase III clinical trials are progressing well and commercialization is expected in coming years. Our Food Ingredients CDMO business has shown an increasing trend. On the overall Pharma business, API business is showing good traction with deeper penetration across geographies and regulatory approvals for new products coming through is expected to drive the growth. Improvement in operating leverage for the segment will translate to better profitability.

Now I would hand over to Vimal who will provide an overview of the Crop Protection division's performance.

Vimal Kulshrestha:

Good morning, all the participants of this call. I will provide the overview of the Crop division. For Q3 FY '24 Crop Protection business reported revenue of INR180 crores, EBIT of INR22 crores and EBIT margin of 12.1%. For 9 months FY '24, Crop Protection business reported revenue of INR508 crores, EBIT of INR61 crores and EBIT margin of 11.9%. Destocking situation, coupled with intense price competition continues to impact the Crop Protection industry. While on a sequential basis, we witnessed revenue growth while navigating through the industry headwinds on the back of improved performance in CDMO segment. There are several projects under advanced stage of discussion with existing innovator customers as well as new customers which will drive mid-to long-term growth.

Our cost improvement initiatives have started yielding results and contributed towards maintaining margin profile. Our new multipurpose facility at Panoli is completed and stabilization of plant is in progress. In our business vertical, own products destocking continues to impact demand across globe, and it is expected to improve towards end of H1 FY '25 on the back of end user consumption rate.

Our medium-term outlook for key products remains positive. As a part of growth strategy, we are also in the process of commissioning our new multipurpose plant at Panoli. Additionally, we are actively exploring new product opportunities to further expand our business. In our CDMO business, our CDMO business continued to maintain a healthy pipeline of inquiries from both current and prospective clients. We continue to focus on these opportunities to strengthen our position among global innovators. This is expected to drive the growth of the segment in medium to long term.

Now I will hand over to Anish for his overview on business strategy.

Anish Swadi:

Thanks, Vimal. I would first like to give you an overview of the Animal Health business. The development of multiple APIs under a long-term agreement with our Innovator Animal Health customer is on track. We have commissioned a new multipurpose plant for Animal Health in Q3 of this year. Several products are under validation. These product validation batches will be a first step towards registration and then commercialization of the portfolio.

The commissioning of the new facility has enabled us to further our discussions and onboard potentially several new customers for their current and future portfolio needs. Our extensive networks and strong connections with global innovators position us as a select partner of choice in this field. By offering end-to-end support in process development and complex molecule synthesis, we have established ourselves on a solid and comparable footing. Our deep network across geographies will enable us to attract new customers and capitalize on the opportunities for a newer product portfolio, which is currently under development.

In conclusion, the long-term opportunities will surely surpass the immediate short-term challenges that we see. We have embraced a new growth story during the past 2 years in order to strengthen our bold objectives. Our company's transformation project, 'Project Pinnacle' is starting to pay off as we are attracting new customers on the back of new capabilities and a differentiated technology platform.

As our strategic transformation is pivoting to the next phase, we have taken strides towards integrating sustainable practices as part of our ESG initiative in line with our common goal of enhancing people's lives and helping the community. We reiterate our commitment towards ESG as a fundamental driver of our business.

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

Moderator: Thank you very much. Our first question is from the line of Aditi S from ADM Advisor. Please go ahead.

Aditi S: Just have a couple of questions. First is you have recently signed an MoU with Gujarat government for investment of close to INR500 crores. So is this a new capex that we have planned? Or can you share some more details on the same?

Sameer Hiremath: Yes. Thanks for that. So the MoU that was signed is for the capex that is currently underway in Panoli site for our new plant, which will be completed in the next few quarters. So this is already being capex that we've already committed and which we have started, which we are spending from the last couple of years on this site. It's part of the original capex.

Aditi S: Okay. Okay. Got it. And the second thing -- second question, sir, given the challenges in the agrochemical industry is facing, I just wanted to know your long-term view on the industry.

Sameer Hiremath: Well, I think medium to long-term fundamentals are still very much intact. I think consumption has not gone down much. Just a massive destocking of the inventory that has taken place post-COVID where there was a lot of overbuying and the channel's inventory was flooded. But we're seeing that reducing; some markets have already come to acceptable levels, others will follow in the next few quarters. And so we see the fundamentals are still intact. The hypothesis doesn't change for growth potential.

Moderator: Our next question is from the line of Prajay Shah from HR Securities.

Prajay Shah: I have a couple of questions regarding our Pharma business. So, I just wanted to understand in our Pharma business what is this scenario like, especially in terms of competition from China. And how is it panning out in the industry? How is the Pharma business dealing with it and subsequent impact on us?

Sameer Hiremath: Sure. You had one more question. You want to ask that as well, we can answer them together.

Prajay Shah: Yes. Yes. Also, some highlights on the progress on our like Pharma, CDMO business, what's going on, what efforts we are making, what are our future plans?

Sameer Hiremath: Manoj, do you want to answer that, please?

Manoj Mehrotra: So as you know that we operate in 2 segments. One is the API segment, which is our own product and own development and other is on the CDMO side. So the competition from China remains in the API segment, and we have to be cost competitive, and that's what we always do. We benchmark our cost positions, first of all, with Indian competitors and also competitors from

China. So that continues at the same level. There is no real increase or decrease in intensity of that competition.

Number 2, on the CDMO side. It is the China Plus One factor which is definitely playing. All the CDMO innovator customers want to derisk from China and they are looking at India and Hikal as a long term supplier with more and more new opportunities, which is under progress. And that's why we are quite bullish on our CDMO business. Yes, in the short term, there have been challenges because of inventory destocking and taking some time for new opportunities to go to commercial scale. But we are confident that in our API business, we will remain to be competitive in all our product portfolio, which we launched on the CDMO business, we see long-term traction definitely coming our way.

Prajay Shah: Okay. Okay. Just one more question regarding API business. How are our raw material prices trending out? Like since I believe that last couple of quarters, they have been falling and what do you see like the prices going forward?

Manoj Mehrotra: So they have been falling, yes, you're right. Raw material prices have been falling and then it ? has reached the bottom trend. And at least in the first half of 2024 calendar year this will remain at the bottom level. Going forward, we have to really wait and watch, but I guess they have bottomed out at this stage.

Prajay Shah: Okay. Okay. And regarding what are our top API products that we are selling. Can you mention and what is the contribution to our revenue? What contributed to our revenue. Can you share this?

Manoj Mehrotra: We don't provide product-wise information in this forum. But yes, the old legacy products, if you see from our filings, you would definitely find them there, but we really don't disclose product-wise revenues.

Moderator: Our next question is from the line from Ravi Shah from Opal Securities.

Ravi Shah: I just have one question on the Animal Health business. So we had mentioned that we are in discussions with several customers to provide manufacturing and R&D solutions. So what is our progress over there, if you can give some information on that?

Sameer Hiremath: Anish, do you want to take this?

Anish Swadi: Sure. So as you know, discussion starts at the early stage, especially with new customers. So first, we offer them or we give them an overview of what we can provide. Everybody is very interested to understand what's our capability and our technology toolbox. And we start at the early stage, which is the R&D pipeline stage, and then we progress to the commercial manufacturing. So we've had keen interest from a select group of companies or global innovators who are in discussions at various phases with us.

Ravi Shah: Understood sir. Sir, I have one more question if I could please. So what is the capex share incurred during the 9 months ended? And what is your end year target for capex.

- Sameer Hiremath:** Kuldeep, our CFO. Can you take that?
- Kuldeep Jain:** Yes. Yes. As we mentioned in earlier calls, our target is to spend INR200 crores. This year so far we have done almost INR170 crores and the balance we'll do in the next quarter.
- Moderator:** Our next line is from the line of Ankit from Bamboo.
- Ankit:** My question is on the Animal Health contract that we have signed. So the ramp-up for this project is expected from FY '25 or from the Q1 of FY '25? Or how do we see that coming for this segment.
- Anish Swadi:** So currently, we are in the validation phase of the portfolio that we're doing. So we've completed a few products, the development of a few products, the validation will be ongoing for the next 12 to 14 months and then post which we'll get into commercialization. There will be a little area of where the plant will lie idle for some period of time while the registrations are being taken out by the customers.
- Ankit:** So the products which are actually going to be commercialized, they're not already commercialized. Is it like that?
- Anish Swadi:** Yes, they're being validated right now. So we supply the validation batches, the customer uses them in their formulations to register the products. And once they get the registration, we supply them commercially. These are new developments...
- Ankit:** Okay. So these are already launched patented products? Or they will be launched over the next year or 2?
- Anish Swadi:** It's a portfolio of a mix of products, yes.
- Ankit:** Got it. So do you expect a significant ramp-up for this segment happening only from FY '24?
- Anish Swadi:** Yes, that's correct. Yes.
- Ankit:** Okay. And like how much revenue can this segment contribute in FY '26, '27 in an overall scheme of time?
- Anish Swadi:** Yes. So we already have a small... or an inroad into the Animal Health business that's existing. But as we see the potential, if I look out maybe 3-4 years out from today, we could see a potential of anywhere between INR200 crores to INR300-odd crores of potential revenue.
- Ankit:** Okay. And this will be largely driven by this contract, which we have with Innovator?
- Anish Swadi:** It's a mix. It's not only this contract. We have inroads into other customers as well. So it will be a mix. I'm just talking from the entire Animal Health business perspective.
- Ankit:** Segment perspective. Okay. Okay. And on the API side, if you can give an outlook, when do you expect things to stabilize and revenues scaling up on margin and profitability coming back

for us like from this quarter or if not this year, but next year, in which quarter do you expect this to stabilize.

Sameer Hiremath:

Manoj.

Manoj Mehrotra:

Yes. So on the pharma APIs, the volumes have recovered. The margins have also recovered, and they are getting back to what we were 2 years ago. The overall pharma business is subdued because the volume offtake in the CDMO segment has been subdued in the last 2-3 quarters. But I'm sure that in next year, second half, both API and CDMO business will be back to historical levels of margins.

Ankit:

Okay. But we can understand question on generic API side. But do you think -- are you also seeing pressure on the CDMO products as well?

Manoj Mehrotra:

Products are more under pressure because of inventory correction. There are long-term contracts, the margins are fairly stable. So once these volumes recover, you will be back on track on our historical margins on CDMO.

Ankit:

Sure. One longer-term question, if you can talk about from a Hikal perspective, there have been a lot of capex over the past 3-4 years, and we have entered into or we've grown our Animal Health business as well and we have been taking challenges over the past 2-year almost. So let's say the situation normalizes, if not first half of next year or by at least by the second half of next year. Do you think we can grow our business by 20%, 25%, given the amount of capex we have done in our margins can range upwards of 19%, 20% that we had reported 2-3 years back, and we were hoping for an increase from that range.

Sameer Hiremath:

Yes, I think I'll take that. Yes, you're right. I mean, capex, we have done capex in the last 2-3 years. It is about panning out except --for the current 1 year of Crop Protection impact, it will come back, I think. And then we will start seeing this growth, historical growth. We'll come back to double-digit growth levels, which we expect to happen, and this will automatically give us operating leverage. And once you have operating leverage, you will see our profitability go up significantly from where we are today.

Ankit:

Okay. So we had almost -- we are almost touching in FY '23, it has crossed INR2,000 crores kind of revenue. And most of the capex, which you have done was yet to be capitalized or yet to do certain new. And given the capability then do you think in '26, '27, we can look at INR3,000 crores, INR3,200 crores kind of revenue if things come back to normalization and our margin can swing up 20%.

Sameer Hiremath:

I mean the plan is to grow the margins in the industry in which you're talking and to come in this level of revenue growth as well. But I think we're looking more on margins rather than revenue, but revenue will also grow. You're right, I mean INR2,000-plus crores capex will give us a significant uptake. It's going to take a little bit of time because of the current scenario. I think but if we look at '27, '28, I think we should be back to those kind of numbers, which we're talking about, yes.

Moderator:

Our next question is from the line of Rohit from Centrum Broking.

Rohit: Yes. Congrats on sequential recovery in terms of margins and overall operating performance. Sir, first question is on the business segment. So in terms of pharmaceutical as well as Crop Protection, now since we are having dialogues with our customers, what is the feedback in terms of the inventory situation and normalization of business. I mean what are their expectations when things will start normalizing and a steady-state growth will commence. So any feedback on that?

Sameer Hiremath: Well, I think the pharma side, as Manoj mentioned, we expect 1 or 2 quarters things will come back. Crop, we estimate our second half of FY '25 -- like this calendar year. But crop is undergoing massive stress as we know. It is going to be Q3 or Q4 of the year that anyone's guess. Currently, we're estimating from Q3 next financial year, things from the crop side should start coming back. Pharma will be slightly earlier than that. And I think by second half of the year, as Manoj and Vimal mentioned should be back to pre COVID type of levels, which will be back.

Rohit: Sure. And just an additional clarification, in terms of EBIT margins, what would be a steady-state margin range? I mean, I don't want any particular number. But for both the segments, one thing come back to normalcy, what are the kind of steady margin range that we are looking at?

Sameer Hiremath: Well, I mean, I think the previous analyst asked the call a question about what kind of EBITDA margins we'll be looking at medium term. I think if you take to that kind of level, you... automatically EBIT will go up quite substantially from where we are today, what we were about 2 years ago. So, we surely get back to those levels.

Rohit: Fair enough. Second question to Anish sir, on the Animal Health business. So just a couple of clarifications here. So, you mentioned that probably during the validation phase, the plant will be idle for a period of maybe a few quarters. Is it that we will not be able to manufacture any other products or any other customers during this time?

Anish Swadi: Yes. So the validation that's happening, we have a portfolio of products. So when we develop the products, we are developing 2 to 3 products at a time, right? And then we concurrently validate that. So there will be a lag. It won't be a few quarters, but it will be a short lag in between where the first product that's been validated support and supplied to the customer will then come back from registration and then it will concurrently happen.

So it's not happening all together at one time where there's a large lag and then the commercialization starts. It starts concurrently. And we also have backup plans in terms of what we can do in the asset as well. We have some other products that we have that we are seeing how best it can fit into the asset where we can monetize the sale of the products.

Rohit: Sure. And just 1 more clarification on this. In terms of margin profile, so once this business reaches a particular scale, will it also have our company-wide margins, or will it be better margins given that at least earlier part of the composition would be more pronounced towards the patented or products which are particularly manufactured for the specific customer.

Anish Swadi: Yes. So I think first of all, once we start out, it's a business build, right? So it's a business that we're -- we've got an anchor customer, we have other customers in the pipeline. We have other products that we're looking at. So in the initial stages, the margin will creep up to where the company margin is once it stabilizes, right? And that we've already discussed from about 2 years

ago. Once we get the operating leverage and our business improves, then the potential for the margin to expand is considerable over the next 3 to 4 years, certainly.

Rohit: Sure. And just apologies for squeezing in a last one. So about the risk disposal issue that has cropped up a couple of years back, where are we currently is completely resolved and whether the fine or anything penal action that has been taken or has been taken care of?

Sameer Hiremath: No, the matter is sub-judice. And there is no update right now, it is a stay in the court.

Moderator: Our next question is from the line of Ankur from Axis Capital.

Ankur: First question on the CDMO business, both in the Pharma as well as the Crop Protection side. How has been the share of generic versus patented and if at all there has been any shift over the last, let's say couple of years.

Sameer Hiremath: Sorry, the question is the CDMO generic versus patented, is that the question?

Ankur: Yes.

Sameer Hiremath: Yes. So our CDMO business, if you look at the crop side, it is mostly patented products on the crop side. We have a few generic products, which are CDMO, but again that is exclusive. As you know, the crop industry, there's something called patented, there's something called proprietary generics and there's this plain vanilla generics. We are not in the plain vanilla generics in the CDMO space at all. But either in the patented predominantly, or in the proprietary generics where the customer has patents on the formulation technology, and they have a high market share in those generics. So that's how the crop industry is.

On the pharma side, the CDMO business also is a mix of generics and proprietary generics again and on patent. We are not into plain vanilla generics. We have a few life cycle management products. But that's -- but if you look at it predominantly as a company, it is patented and proprietary generics.

Ankur: Sure. And over the last couple of years, is there any change in the mix here, maybe you got more products on the generic patented molecules for the proprietary side.

Sameer Hiremath: I think this is getting more products on the patented side, which is a good sign. Customers are trusting us with IP, with technology, our capabilities, our track record. So we are winning the new RFP that we're winning and Manoj, spoke about a couple of Phase III clinical trial molecules, and that's happening. And we're also moving up the value chain from being intermediate suppliers like getting opportunities like APIs now, for also in fees. So there's a big change in the way customers are looking at us and giving us high priority projects we are getting those -- we're bidding those, yes.

Ankur: Sure. And the margin profile on these products, how is the RM inflation, etcetera? What sort of -- not exactly a number, but what sort of range of margin that we are working on. Is this a rupees per kg margin fix that we earn or there is a percentage margin and probably RM inflation is a passthrough here.

- Sameer Hiremath:** Yes. It's a fixed margin and RM is just passthrough, but the margins are significantly higher than the current company margins here on the CDMO. Because these are...
- Ankur:** You said fixed or it's rupees per kg or percentage.
- Sameer Hiremath:** Sorry, it is percentage, but the RM is passthrough.
- Ankur:** Okay.
- Sameer Hiremath:** But RM is a small part of the total cost because it's on patent. So margins are pretty high.
- Ankur:** I'm presuming the same implies for both crop as well as the pharma side.
- Sameer Hiremath:** That's correct.
- Ankur:** Great. Secondly, from a product approval timelines perspective, you did mention in your initial remarks, there are not many products in the pipeline. At what stage we are and if you can share the number of products and probably a timeline when we can see some ramp-up from approvals there.
- Vimal Kulshrestha:** See, we expect the market to recover from second half of FY '25. So gradually, we see a recovery in first couple of quarters.
- Ankur:** Yes, this comment will be true for the existing CDMO revenue that we have. Is that right?
- Vimal Kulshrestha:** Yes.
- Ankur:** So the newer ones are also the product approval, etcetera, is done and the ramp-up will happen once the market opens up.
- Vimal Kulshrestha:** Yes. So we have currently 3-4 CDMO products under development. But that also ramp-up will happen in the second half of next financial year.
- Ankur:** Sure. And on the pharma side.
- Sameer Hiremath:** Manoj.
- Manoj Mehrotra:** Pharma side, it is similar only. And once we improve volumes, the margins will also improve. And it's a mix of it as Sameer mentioned, patented and proprietary generics.
- Ankur:** Okay. Given the fire incident and that matter being still sub-judice, is there any -- whenever you're going for new business win and client -- interaction with client for -- maybe existing

clients or the newer ones? Is there any concern on that side or how has been the market response to that?

Sameer Hiremath: Sorry, what incident is it? Fire incident?

Ankur: Yes.

Sameer Hiremath: So there was a -- incident in Surat in 22, January 22.

Ankur: Yes.

Sameer Hiremath: That's the one, right?

Ankur: Yes, yes, that one.

Sameer Hiremath: Yes. That's not a fire incident. That's an external incident and nothing to do with the factory. So that incident has been explained to our customers. In fact, customers post that have reiterated the commitment to Hikal. We won new customers; we've onboarded new customers post that incident. Because clearly, the judgments from the courts are in our favour and we got favourable rulings that is not our material, not our tanker, and it is all in the public domain. I mean he's given an update in multiple quarters.

And there's been no impact on our pharma or our crop business. And customers trust us, and they've done their whole due diligence, and they checked us out. They re-audited all our facilities. And we've been requalified as a long-term sustainable partner for them.

Ankur: Great, sir. And just last question, if I may. From our export share perspective, we have been there across U.S., Europe, Southeast Asia and the inventory issues that we are seeing in. Is there any specific geography which is more impacted or less impacted and we are seeing some early signs of improvement, if at all?

Sameer Hiremath: No, I think, see companies buy central procurement, right? Then they decide which market they sell. These are the big innovator companies on a big, which is where we supply and where our generic presence is smaller. But even then pharma API goes into U.S. and Europe, mostly, while the crop business goes into a local market globally in all. So there is a global inventory collection happening. I think some may be a bit percentage here and there.

But it's not significantly different from geography, yes.

Moderator: Our next question is from the line of Ankeet Pandya from InCred Asset Management.

- Ankeet Pandya:** Sir, 2-3 questions from my side. So firstly, on the volume side, how has been the growth of volume for both the crop and pharma on a sequential basis for the quarter?
- Sameer Hiremath:** Well, volumes for the company were down by 9% compared to the Y-o-Y basis. Quarter-on-quarter basis, volumes for the company were also down by about 6%. For the crop business, volumes were down by 10% and for pharma, we were down by 2% on a quarter-on-quarter basis.
- Ankeet Pandya:** Pharma was 5%?
- Sameer Hiremath:** 2%.
- Ankeet Pandya:** Okay. And secondly, on the other expenses, so...
- Sameer Hiremath:** It's not a right indicator of the business because we have a diverse product portfolio. Some are very large volume, low priced products, some are low-volume, high-priced products. So just this number doesn't give you the correct idea of how the business is performing, yes.
- Ankeet Pandya:** Okay. Fair enough, sir. Sir, secondly, on other expenses. So sequentially, there would be almost a 12% to 13% increase in other expenses. So can that be mainly the other expenses have increased due to the commissioning of the new facility also? And how should we see like on the quarterly run rate or the current quarter if we can take that as a steady-state number? Will that be a fair assumption?
- Sameer Hiremath:** Kuldeep, why don't you take it.
- Kuldeep Jain:** Yes, sure. Yes, you are right. The other expenditure are going up because we have created 2 big facilities, which will be ramping up in the coming quarters in the future. So we have already created the infrastructure for these 2 facilities. And definitely, currently, it is impacting our P&L. But going forward, we will have the contribution, the margin coming up from the new businesses, and it will neutralize the impact of this cost. So it's, in fact, and it's a front loading of the cost.
- Ankeet Pandya:** Okay. So exactly my question that given that the new facilities commission. So in the coming quarter also, will we see further bump up in the other expenses or the current quarter we can assume the steady state number for -- going forward?
- Kuldeep Jain:** Maybe some inflation index may really have some impact. Otherwise, it will be the same -- it's in the same range.
- Ankeet Pandya:** Okay, fair. And lastly, on the CDMO API split. So on the company level, not the Crop Protection or Pharma, but on the whole company level, what is the current CDMO and API split for the company?
- Sameer Hiremath:** For the company CDMO was over 50%.
- Ankeet Pandya:** Okay. And sir, do we -- can we expect like any change in this contribution to CDMO going for a higher share in the next 3 to 4 years, given that the new capabilities that we have set up on the

new capabilities that we have done so in the next 3-4 years, do we expect the CDMO part to drive growth? Or this split will continue even in the long term also.

Sameer Hiremath: No, no, I think the focus is to grow our CDMO business significantly. That's why the new assets that we've created in pharma, in animal and on the crop are going to aid -- attract new CDMO customers and new projects. And a lot of the R&D projects that we're doing in R&D side are also in the CDMO space. So you will see the percentage increasing of the CDMO split in the company will go significantly higher in the next 3 to 4 years.

Ankeet Pandya: Any ballpark or like broad range, if you can give like a 70% plus or 60s, 60% to 75% a year or something directionally. Aspirationally, what you want to achieve in the CDMO space. So mainly, I'm asking from the point of view that given that we are more on the patented and the proprietary side in the CDMO space.

So given that, in that business, the margins are upwards of 25%. So like -- and even you have been guiding that we want to achieve 23%, 25% EBITDA margin over the next 3 to 4 years. So like given if the CDMO split -- CDMO pie is much significant. So the margin probably that ramp-up will also be much faster. So from that point of view, I'm asking directionally for the contribution of CDMO.

Sameer Hiremath: We're currently at about 50-odd percent. The target is to go up quite a lot over that. But we always look at the best margin profile of the product. Because generics also -- we are also picking some products in generics, where we see very good margins. So if there's a niche product on the generic side. So it's always a discussion yet. The focus is to do more CDMO, more on patent stuff where the margins are pretty nice.

But we will not disregard the API opportunities also where you could also get some unique opportunities there and some significant margins in some products. So the case-to-case basis -- but the general trend is to attract more CDMO businesses. It's more long term, more sticky, and it gives us a good traction with our global customers.

Ankeet Pandya: Fair enough. Sir, lastly, just looking on the pharma industry and the CDMO space, given that there's been a lot of challenges are going on in the industry. So most of the innovator companies also they have been rationalizing some of the molecules, which are probably in the Phase I or Phase II and whether clinical data is not so strong for them. So we are rationalizing those kind of projects. So have we seen any challenge on the tax front or that has been relatively stable for us.

Sameer Hiremath: We are not involved in a very early-stage development on the pharma side. We typically get involved in Phase II and later. So you know we only lead drop-off areas where we're not participating in right now. We get involved in process development and delivering of material, typically, which is post Phase II. So the chances of the product going across are much higher than if it can get involved very early on in the development.

Ankeet Pandya: Okay. So that risk is relatively less for Hikal.

- Sameer Hiremath:** I mean there is obviously some drop-offs which will happen, but it's significantly less than getting involved in a lead or a Phase I molecule.
- Ankeet Pandya:** Okay. And sir, just to ask for your view on this whole funding challenge and how it currently and by when, like, do you see it stabilizing going forward?
- Sameer Hiremath:** Sorry, I couldn't hear that. Can you repeat the question, please?
- Ankeet Pandya:** Sir, I'm just asking from your view the whole funding challenge in the pharma space, that's been going on with CDMO. So what is your view? And like how is that panning out in the last 1-2 months?
- Manoj Mehrotra:** Yes. The question is more on funding for Phase I, Phase II kind of molecule. Yes, there has been a slowdown and especially the smaller biotechs and emerging pharma in various geographies, mostly in America and Europe. There has been a slowdown, but Sameer mentioned, we are not really in that space, in Phase II, Phase III of bigger customers. So we have not raised this challenge. Funding will be drawn on early-stage molecules.
- Moderator:** Our next question is from the line of Amar from Lucky Investment.
- Amar:** Yes. So sir, just to understand, like you indicated that by second half we expect the pickup in revenue. So -- and you indicated that it would be a pre-COVID level kind of revenue. So I'm just able to -- I mean, I was not able to understand that. What we are indicating in that.
- Sameer Hiremath:** No. No. The question was when will margins come back to the old steady state. So that was the question by one of the investors. And then H2 onwards, we expect revenues and margins will come back to where we were kind of 2 years ago.
- Amar:** Okay. And primarily, sir, at what utilization we would be working at this point of time?
- Sameer Hiremath:** Well, the pharma plants are running at close to 75% to 80% utilization, 70% to 80%. Crop is a bit lower because of the current inventory destocking. And it will improve in the next coming few quarters.
- Amar:** And if I see your CWIP currently, so around about INR500 crores of CWIP, and are you saying this will further increase because you have a plan to invest another INR200 crores. So approximately total INR700 crores of capex we are doing in the next 2 years?
- Kuldeep Jain:** No, no. As we mentioned earlier also, the plan for the capex expenditure for this year is INR200 crores, out of which we are -- and then INR170 crores, which is part of the CWIP, which is currently sitting in that box. So for the next quarter, we are expecting INR30 crores, INR40 crores more to spend on the capex.
- Amar:** Got that. And what would be your capex in FY '25 then?

- Kuldeep Jain:** Again, we are working on it. We'll have to really see. But typically, we are doing almost INR150 crores to INR200 crores each year.
- Amar:** Okay. And will this, sir, INR500 crores will get capitalized.
- Kuldeep Jain:** See, as Vimal and Sameer have mentioned this, the big plant at the location is under commissioning. Let's see, once we -- it is finished, probably this quarter or the next quarter.
- Amar:** Okay. So at least by second quarter, we will see this INR500 crores getting operational.
- Kuldeep Jain:** Definitely. Definitely.
- Amar:** And this would be largely what agro or pharma or how the split between INR500 crores?
- Kuldeep Jain:** See largely the crop protection, one of the multi-purpose plants, which will give us a lot of value addition next year.
- Amar:** Okay. And part of that would be backward integration, right?
- Kuldeep Jain:** Yes, yes.
- Amar:** So this INR500 crores is not fully the revenue-facing capex, right?
- Sameer Hiremath:** It includes infrastructure as well.
- Kuldeep Jain:** Yes. Yes.
- Amar:** So out of that, sir, what kind of asset turn we can see from this INR500 crores?
- Kuldeep Jain:** I think we are at 1.1x.
- Amar:** 1.1x. But the margin would be better than the normalized margin of your current company average?
- Kuldeep Jain:** Definitely margins are better. But if you look at the current global scenario, and we have to really first come out of it, then we will really gradually improve our margins.

- Amar:** I agree. I'm saying at the normalized level, considering everything is normal.
- Kuldeep Jain:** Definitely, yes.
- Amar:** Okay. So it would be like what normally you make 18% average, so 18% to 19% average. So this would be what at least 300, 400 points better?
- Kuldeep Jain:** I think it will be better.
- Moderator:** Our next question is from the line of Rohit from Centrum Broking.
- Rohit:** Sir, in terms of R&D capabilities, how have those improved in the last maybe 3 to 5 years. And an allied question to that, maybe pre-COVID how many customers we had in CDMO for both Crop Protection as well as Pharma and how it has changed now in terms of the number of customers we have acquired based on the capabilities improvement?
- Sameer Hiremath:** Well, a number of customers have pretty significantly increased at multifold in the last 4, 5 years, I would say. There's been a lot of push on business development and onboarding new customers and building new capabilities. I don't have the exact number, but it's gone up significantly in the last 4 to 5 years. The R&D capabilities, but the question that you asked was there was a lot of emphasis on getting into complex molecules. We're -- customers now come to us for difficult to do technology and multistep synthesis and whereas where we have something unique to offer from a technology perspective, scalability perspective.
- And we're able to manufacture at different scales, we think very stringent quality requirements is also seen from customers, inquiry profiles, quality requirements, special particle sizes that they come to us for. So the type of projects that we're doing are not plain vanilla projects anymore. The shift has been going to a bit more complex projects and customers are looking at hyper complex molecules. That's been the shift I think in the last 4-5 years.
- Rohit:** Sure. And just one allied question. So effectively, these complex chemistries would also attract better margins. So incrementally whatever projects that we are working on should entail higher margins and once the business environment normalizes, maybe after FY '26, '27, we should see a continuous improvement on the operating margins that we had been envisaging earlier that 18% to 20% and then there could be some improvement on a yearly basis. Would that be a right assessment?
- Sameer Hiremath:** Yes, absolutely right. First, I think operating leverage itself will improve our margins from where we are today. Currently, the plants are not fully utilized because of the global macro crisis taking place. Once we get that back into steady state, then already operating leverage will improve our margins and the new products that come in to fold in the next 3 to 4 years, we'll have a better margin profile. The blended margin will be higher than historical margins on a stepwise basis, they're moving towards that, yes.

- Moderator:** Our next question is from the line of Ankit from Bamboo.
- Ankit:** My question was on the asset turns query that the previous participant had asked. So our asset turns when in earlier calls, we used to say that our asset turns will be around 1.7x, 1.8x when it would reduce to 1.5x. Now you are talking about even 1.1x for the new capex that you are coming up. At 1.1x, even with 18%, 20% margin or ROCs and not -- will be less than 15%, 16% as well. So any news on this?
- Sameer Hiremath:** I think actually we spoke about a 1.5x type of asset turns. That is for the revenue-generating capex. This 1.1x is a blended asset turn because our infrastructure capex is part of it. That's what we mean by 1.1x.
- Ankit:** Okay. Okay. But as far as our brownfield capex side. So...
- Sameer Hiremath:** No, no. But we are building very large plants. So for example, Animal Health plant is lot of, even though it's on an existing site, the infrastructure is dedicated to this. There a lot of -- and these plants have been built up pretty large. So a lot of expansion, should take place in infrastructure also to support these plants. In the next phase of capex, we will have less infrastructure requirements. And those assets -- those capex' will be largely revenue-generating capital, larger percentage than where we are today.
- Moderator:** Ladies and gentlemen, that was the last question for the day. I now 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 continuous 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 day. Goodbye.
- Moderator:** Thank you. On behalf of Hikal Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.