May 15, 2024

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

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

Dear Sir/Madam,

Subject: Transcript of Earnings call for quarter and financial year ended March 31, 2024

In continuation of our letters dated May 3, 2024 and May 9, 2024 and pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the earnings conference call to discuss the financial and operational performance for the period ended Q4 FY24, held on Thursday, May 9, 2024.

Kindly take the information on record.

Thanking you,

Yours Sincerely,
for **HIKAL LIMITED**

Rajasekhar Reddy Chintakindi
Digitally signed by Rajasekhar Reddy Chintakindi
Date: 2024.05.15 11:28:40 +05'30'

Rajasekhar Reddy
Company Secretary & Compliance Officer

Encl.: As above

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Hikal Limited

Q4 FY24 Earnings Conference Call

May 09, 2024

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 9th May 2024 will prevail.

MANAGEMENT:	**MR. SAMEER HIREMATH – MANAGING DIRECTOR, HIKAL LIMITED** **MR. ANISH SWADI – SENIOR PRESIDENT & HEAD (BUSINESS TRANSFORMATION & ANIMAL HEALTH BUSINESS), HIKAL LIMITED** **MR. KULDEEP JAIN – CHIEF FINANCIAL OFFICER, HIKAL LIMITED** **MR. MANOJ MEHROTRA – HEAD (PHARMACEUTICALS BUSINESS), HIKAL LIMITED**

Moderator: Ladies and Gentlemen, Good Day and Welcome to Hikal Limited Q4 FY24 Earnings Conference Call.

This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of the future performance and involves 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 – Managing Director**. Thank you and over to you, sir.

Sameer Hiremath: Thank you. Good Afternoon, Ladies and Gentlemen, and Welcome to Hikal's Q4 & FY24 Results Conference Call.

We are pleased to provide you with an update on the progress made by your company. We trust that you have had the opportunity to review our Comprehensive Earnings Release, Financial Statements and the Investor Presentation for the Quarter and Financial Year ended 31st March '24. These documents can be accessed on Hikal's website and the stock exchanges website.

I am Sameer Hiremath, Managing Director, Hikal Limited and I will be leading the discussion for this call.

On this call, I have with me, Anish Swadi – our Senior President and Head of Business Transformation and Animal Health; Kuldeep Jain – our Chief Financial Officer; Manoj Mehrotra – Head of our Pharmaceuticals Business and Strategic Growth Advisors, our Investor Relations Advisors.

The current operating environment was marked by inventory backlog, oversupply and heightened price competition in the crop protection industry. We expect this to start normalizing towards the end of FY25. The pharmaceutical sector on the other hand is displaying signs of improvement with a better demand profile supported by stabilized raw material prices. Amid these dynamics, our strategic focus remains on gaining new customers, bolstering operational efficiencies and optimizing costs through various business excellence initiatives.

This quarter, on a sequential basis, our revenues increased by 15% to Rs.514 crores, EBITDA increased by 45% to Rs.94 crores, on a YoY basis EBITDA increased by 7% and EBITDA margin stood at 18.4%, an increase of 220 basis points.

For the full year FY'24 revenue stood at Rs.1,785 crores, EBITDA stood at Rs.267 crores with EBITDA margins at 15%, which is an increase of 230 basis points compared to the previous year.

Our Board of Directors have recommended a final dividend of 30% along with an interim dividend of 30% declared in February 2024, in which case the total dividend for FY24 stands at 60% of face value, which is Rs.1.2 per share.

For the year FY24, our API facility Panoli, Gujarat underwent an FDA audit which concluded with zero 483 observations, showcasing unwavering dedication to stringent regulatory compliance standards amidst the backdrop of increased market penetration, stabilized raw material prices and an increase in the number of enquiries in our CDMO segment.

FY24 also marked commissioning of our animal health, multi-purpose plant at Panoli and validations of a few products in this plant have been completed with several more currently underway.

In our pharmaceuticals business, we've observed an enhancement in both margin profile and volume reflecting the positive outcomes of our strategic efforts over the last few years. This progress is evident of regulatory approvals from several customers and regulatory authorities, strengthening of our customer base across key geographies such as Japan, Latin America and Middle East within the API segment.

In the crop protection business, the global crop protection industry continues to face significant headwinds, including subdued global demand and intense price competition. While we have followed the near-term industry wide challenges, we expect the market trajectory to improve in the crop protection business towards the end of this financial year. We are well positioned across both our businesses for long-term profitable and sustainable growth.

For the crop protection business, we reported revenue of Rs.177 crores for the quarter with an EBIT of Rs.14 crores and EBIT margin of 7.7%. For the year ended March 31st FY24 revenue for the crop business stood at Rs.684 crores, EBIT of 74 crores and EBIT margin of close to 11%.

The crop protection industry continues to be affected by the destocking situation along with overcapacity and intense price competition from China.

Numerous projects are in the advance stage of discussion with both existing innovator customers and new customers, which are expected to come onstream in the next few years and drive mid-to-long-term growth.

Our cost improvement initiatives have begun to yield results which are playing a pivotal role in maintaining our margin profile.

The construction of our new multi-purpose facility at Panoli has been completed with the plant currently undergoing manufacturing qualifications.

From our own products, destocking continues to impact demand globally and we expect improvements towards the end of FY'25.

In line with our growth strategy of commissioning our new multi-purpose facility at Panoli, we are additionally actively working on new product opportunities to further improve and expand our business.

Our CDMO business maintains a healthy pipeline of enquiry from both current and prospective clients. Our focus on these opportunities is to work on these molecules with a better margin profile, which is expected to strengthen our position among global innovators, driving growth in this segment in the medium-term.

Now, I would like to hand over to Manoj Mehrotra, President of our Pharmaceuticals Division, who will provide an Overview of the Pharmaceuticals Division Performance. Over to you, Manoj.

Manoj Mehrotra: Thank you, Sameer, and Good Afternoon, Ladies and Gentlemen.

On the financials for the Pharma Business:

For Q4, FY24 Pharma Business reported revenue of Rs.338 crores, EBIT of Rs.54 crores and EBIT margin of 15.9%. For the full fiscal year '24 Pharma Business reported revenue of Rs.1,100 crores, EBIT of Rs.93 crores and EBIT margin of 8.5%. Operating profits have increased sequentially, supported by a better product mix. On a year-on-year basis, the stabilization of raw material prices, combined with a diverse set of initiatives aimed at improving cost efficiency and optimizing operational costs have resulted in enhanced margins.

On a business vertical for the API business, our API business is showing promising traction on both QoQ and YoY basis.

Regulatory filings for our business expansion project in multiple regions have commenced promising to fuel our growth in the future.

We maintain a strong pipeline with 8 to 9 products in development and we are progressing according to plan to launch 2 to 3 products annually.

Our market share in the legacy product portfolio is steadily increasing. In the CDMO vertical in Q4 FY24, the destocking situation continues to impact our CDMO business with an expectation for industry normalization toward the end of H1 FY25.

Continuous discussion with our existing innovator customers and a healthy flow of enquiries indicates an increasing interest in expanding their business with us.

Our CDMO business has exhibited a positive trend in the food ingredients segment with 2 products currently in production, which will reach their full potential in the next 2 years. 2 of our KSMs in phase-III of clinical trials with innovators are progressing well and will reach full potential in 2026 or 2027.

On the overall Pharma Business, our API business demonstrates promising traction, expanding its presence across geographies with the anticipated regulatory approvals for new products poised to drive growth.

We maintain a robust pipeline of projects within the CDMO space and actively pursuing additional opportunities that have surfaced in recent quarters. Several custom audits have been lined in the rest of 2024 and hence operating leverage within this segment is forecasted to lead to improved profitability.

Now, I will hand over to Mr. Anish Swadi, who will provide an Overview of our Business Strategy.

Anish Swadi: Thank you, Manoj, and Good Afternoon, Everyone.

First, I would like to Discuss a Few Points on the Animal Health Business. The development of multiple APIs for an animal health innovator company is progressing well under the long-term agreement that we signed. Our new multi-purpose plant for the animal health business is operational. We have completed 4 product validations with several products undergoing validation for registrations and eventual commercialization in the quarters to come.

Our extensive networks and strong relationships with global innovators position us as the preferred partner in this industry and we are gaining traction with them. Providing comprehensive support and process development and complex molecule synthesis has established us as a reliable and a competitive player in the animal health business. Despite some of the short-term challenges, overall, we anticipate the long-term to be fruitful.

Our ‘Company's Transformation Project Pinnacle’ is beginning to yield results propelling us closer to our goals towards fostering sustainable growth across all our businesses, encouraging momentum is evident in the supply chain, derisking strategy, developing differentiated competencies, the acquisition of new customers globally and the building of a distinctive technology platform.

As we navigate through the next stage of our strategic evolution, notable advancements have been realized to the incorporation of sustainable practices in our defined ESG framework.

Looking ahead, we are executing our clear future strategy and road map aimed at making a positive environmental impact to our operations. Staying true to our values and embracing innovation, we are poised not only to thrive in the marketplace, but also contribute meaningfully to a sustainable and profitable future for all.

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

Moderator: We will now begin the question-and-answer session. We have our first question from the line of Payal Shah from Billion Securities. Please go ahead.

Payal Shah: I have a few questions. First thing, what is your view on US BIOSECURE Act and how it will benefit our business?

Sameer Hiremath: I think the US BIOSECURE Act is being tabled in the US Senate and the initial signs are very promising. It will take some time, but we're seeing an enhanced number of enquiries from US pharmaceutical companies, and I think it's going to benefit companies like Hikal in the medium-to-long term. It is very positive for companies like us.

Payal Shah: Sir, my next question is how aggressive is China with relation to crop protection business and does the same hold true for our Pharma Business?

Sameer Hiremath: Well, they're actually aggressive in the crop protection side where there's a lot of overcapacity in the crop side and there are very low prices being offered. So, there is severe competition coming out of China. While we don't have the same impact on the pharma side because pharma, you are bound by regulatory authorities like the FDA and cGMP. So, the barriers to entry exist. So, we don't foresee the same level of competition in China and there's overcapacity exists in the crop business, not as much on the pharma side.

Payal Shah: Where do we see both our businesses in the next 3 years?

Sameer Hiremath: We expect them to both grow. I think the medium to long term forecasts are both very promising, not only the 2 business, even the animal health business will come to a critical size in the next 2 to 3 years and we expect these businesses to all start growing and coming back to pre-COVID-19 type of levels in the next 2 to 3 years.

Moderator: We have our next question from the line of Sajal Kapoor, an individual investor. Please go ahead.

Sajal Kapoor: I have a couple of questions. Some companies in your peer group have seen molecules migrate from China to India. So innovators have started demonstrating their commitment in specific cases. Have you witnessed the shifting of any molecules or at least the clinical stage projects from China or are we still in the RFQ and discussion stage?

Sameer Hiremath: Enquiries have come, and they are very serious about moving. Some have started to move more on the NCE, you are right, on the clinical phase. I think they are moving supply chains away from China and we are benefiting from that. Some are resulting into projects and they're in the R&D stage already and even more RFQs are moving in. It's taking time, but it's happening.

Sajal Kapoor: Sameer, you guys have always guided for 15% compounded growth over the medium-term. But if I look at slide #15, that confirms the reality, right, I mean our sales have grown below 5% and more importantly, our CDMO share in pharma, the percentage mix has actually gone worse over the 4 years. That's slide 16 by the way. So how should one read into this?

Sameer Hiremath: No, actually our API business has grown faster than our CDMO business because there are many projects in the CDMO side which are on the NCE level. But once they get launched, that percentage will go up. If you look at FY20 versus FY24, yes, as a percentage it has come down, but overall, it will come back. Once it gets ramped up, these molecules get launched, as Manoj mentioned, we have a couple of products in phase-III and they get launched up, that percentage of the CDMO will increase and we will come back to that, 50:50 type of mix where we were historically 3, 4 years ago.

Sajal Kapoor: And an average investor reading slides 6 and 7 will get the impression that the worst is over and the recovery has started sequentially as we are comparing Q3 and Q4 data there, right. However, our H2 is always better than H1 and within H2 the Q4 is typically better, likewise when Q1 FY'25 numbers will be published, we'll find that the sequential recovery is not happening because our Q1 is always lower than Q4, right? So, I mean the whole point I am trying to make here is that is it even worth sequentially comparing our lumpy business, so slide 6 and 7, I think it may be misleading?

Sameer Hiremath: Q1 is always the lowest quarter because we take our annual shutdown during that quarter and that's the nature of the business. So, I think you should start comparing from Q2 onwards when the full production is back on stream. So, from Q2 to Q4 if you notice, our business continuously improves and it is the nature of our business. You're right. I mean historically from Q2 to Q4, we are growing and H2 is always bigger than H1. And that's how our business is being driven.

Sajal Kapoor: So, we don't expect our Q2 -?

Manoj Mehrotra: Just to add to Sameer, because all our innovator customers or multinationals have a fiscal year January to December. So, they kind of minimize inventory in December and so Jan to March they ask for more quantities. So, because of the nature of our B2B business, Q4 for both pharma, crop, CDMO, API will always be the highest quarter.

Sajal Kapoor: Manoj, on the pharma, the business has done well in Q4. Actually, if we look at just Q4 YoY data for pharma vertical, the sales have grown at 10% from 300-odd to 338, right, round about 10% growth in sales but our margins has improved and our profitability has almost jumped by 50%. And I am comparing YoY, right? So, there is no sequential element here. Is this a sustainable trend going forward, can we expect the animal and the human pharma to drive the business and as long as the agro is not kind of in a thrust reversal mode and overall top line should grow by 15%, is that a reasonable assessment, maybe not for next year, but on a 3-to-5-year horizon?

Manoj Mehrotra: So, this Q4 definitely seen a strong recovery because of our product mix and stabilization of raw material prices. Now going forward for the full year, we may not see as strong recovery quarter-by-quarter but the trend is definitely positive and I think you also mentioned a short while back that the worst is over. And again, we will see H2 will be better than H1 because of the nature of our business and our contract, it will be a little slow in H1 but H2 will definitely come back much stronger in my opinion.

Sajal Kapoor: No, I was not comparing QoQ, I was saying that year-over-year over the next 3 to 5 years, can we drive our qualitative -?

Manoj Mehrotra: Definitely, 12-15% top line growth, that is our plan.

Moderator: We have our next question from the line of Rishabh Gang, an individual investor. Please go ahead.

Rishabh Gang: Wanted to understand more about the CAPEX guidance and the asset turns guidance for FY'25 and coming 2 to 3 years? And also, how do we plan to fund this CAPEX and what could be the incremental ROI of this CAPEX?

Kuldeep Jain : If you look at from FY23-24 point of view, we have done the CAPEX of almost Rs.200 crores and actually capitalized. Out of this, almost 55% to 60% was for the growth CAPEX, the commercial supply will start from the second half of the next-to-next year, '25-26. CAPEX for this year is concerned, we are estimating 100, 120 crores, which is primarily the debottleneck and some infra CAPEXs.

Rishabh Gang: And for FY26 and 27, any CAPEX guidance for that?

Kuldeep Jain: As we have mentioned earlier, we are not really averse to invest for the CAPEX unless we have a very good strong case to invest.

Rishabh Gang: Also, just one thing. On the debottlenecking side, do you have a lot of debottlenecking options like low hanging fruits in front of you, which will give very high ROI in the short-term?

Sameer Hiremath: There are a few ones. Manoj spoke about some food ingredients products and some pharma products which are on the NCE mode and that's where we are doing a lot of debottlenecking, a little bit on the crop side also where we're winning some new enquiries on the CDMO side. So, there's no major new CAPEX that we expect for the next year unless there's a big new contract or a business requirement that comes from a customer, then might not be shy in investing.

Rishabh Gang: And on the asset turns for FY'25 and coming year?

Sameer Hiremath: For full utilization, we do because it takes time to ramp up. I mean, if you look at full utilization by 1.1 to 1.3 of the growth CAPEX, that's where we're working at.

Rishabh Gang: And on a blended basis by FY'25 kind of asset turn?

Sameer Hiremath: It depends on the ramp up. It's about 1.1 to 1.3 in the range.

Moderator: We have our next question from the line of Deepak Kumar, a shareholder. Please go ahead.

Deepak Kumar: In the last quarter concall like there was a mention about some inroads in the animal health business and some 200 to 300 crores odd revenue potential coming out of that. So, like how out of this, how much potential do you see actually in fiscal '24-25?

Anish Swadi: I am sorry, could you just repeat the question. It wasn't very clear.

Deepak Kumar: This is with reference to the last quarter concall like there was some mention about inroads you are making in the animal health business and there was some extra revenue potential being talked about of about 200 to 300 crores. So, like how much of that is expected to flow in this fiscal?

Anish Swadi: So we're not getting into the specifics, but as we have said in the past animal health has been about 8% to 10% in historic times in the last 3 years of the Pharma Business. So animal health is still a small part of the Pharma Business. We've signed a new contract which we talked about, the current products are going through validation, they'll hit full commercialization at peak capacity probably in the next 2-2.5-years. Once they go through the validation process, they get registered and commercial quantities will start. So, when I mentioned last call, I said about the next 4 to 5 years we're looking at a revenue potential of about maybe 300 to 400-odd crores, depending on how the products pan out.

Deepak Kumar: Can you share some outlook on what's there in the food ingredients pipeline for the company, like a broad outlook?

Manoj Mehrotra: So currently we have 2 food ingredients with orientated customers and one in the US and one in Europe. And both of them are commercial now and because the approval process is much faster in food ingredients, and we expect that in the year 2026 they will reach their peak revenue.

Moderator: We have our next question from the line of Dhwanil Desai from Turtle Capital. Please go ahead.

Dhwanil Desai: So, my first question is, if I look at our company's last 5-year numbers, our top line has grown from 1,600 crores to 2,000 crores. And in the same time frame we have spent around 1,000 crores on CAPEX. So, our asset-intensity of the business has gone up. So, can you throw a bit light on that? And I understand that some of the CAPEX is just capitalized and it's going to generate revenue going forward. But earlier we used to do asset turns of 1.5 to 1.7 times and now we are guiding for 1.1 to 1.3. So, if you can help us understand what was in the last 4-5 years?

Sameer Hiremath: Well, I think the asset turns, things have become far more expensive I think from a CAPEX perspective and there is competition in the market. So that's number one. Number two, 1.5 - 1.7 was on the total CAPEX because at that point it was most of the gross CAPEX. What's happened in the last few years is because we've done a lot of infrastructure upgradation also, the blended asset turn has come down. And so yes, we have done maybe 1,000 crores of CAPEX in 5 years, but almost 30% to 40% of that is on infrastructure and maintenance CAPEX. So about 50% to 60% has only gone into the growth CAPEX around that. And it takes a gestation period of 2-3 years to ramp up these volumes and the major CAPEX has only happened in the last 2 years out of that 1,000 crores that you spoke about. So more than 50% has happened only in the last 2 years. So that will start kicking in from next financial year. Some impact this year, but mostly for next year and the years to come. And it is being viewed very positively by our customers and this CAPEX will get full because customers are looking for high quality capacity as they move supply chains away from China and they want you to have some readymade capacity available, which we can now offer. So, the chances of winning new contracts is increasing quite substantially with this.

Dhwanil Desai: Again, coming back to last 5 years numbers and I understand we are looking at the trough in terms of the cycle, but still our revenue has not grown at a very decent rate while we have done a lot of CAPEX. So, given that we have good customer base, we already have capacity you are saying there is a shift from China, so shouldn't inspire more to grow at 20% plus in Q1 where we are positioned today because we're guiding for 15% growth, but ingredients for higher growth seems to be in place or am I missing something?

Sameer Hiremath: No, you are right, ingredients for higher works is there, but your selling prices have also come down in the crop space because of intense competition. So, there is a selling price impact and volumes have also declined compared to where we were last year. There's been a significant volume drop in the crop protection business. So, there is free capacity and once we start operating at higher capacity utilization, I think there's a big ramp up possible in the business which would significantly improve the margin of the crop business. We have 3 capacities which we can deploy at short notice which we are winning contracts, and we will be able to fill it very soon.

Dhwanil Desai: On the agrochem side, I think in the last couple of calls if I remember correctly, you were expecting recovery to start from H2. I think in this commentary we are now saying that towards the end of the financial year. So, is it just the wordings or it's actually, we are thinking that the recovery will be slightly more delayed than what we thought earlier?

Sameer Hiremath: I've spoken to each and every one of my customers in the world. I asked them this question. They said, "Your guess is as good as mine." It's just an expectation that early part of H2 or end of H2, everybody is giving their own assumptions. But we're trying to be a little conservative and say towards the end of the H2. If it happens earlier, it's great. I don't think it's going to happen before somewhere in middle of H2. Because the situation in China is very fluid. But it is likely to change, everybody expecting this, but if you notice, all agrochemical global innovator majors have reported negative numbers and negative growth for Q1, and the commentary also talks in the same lines.

Moderator: We have our next question from the line of Rohit Nagraj from Central Broking. Please go ahead.

Rohit Nagraj: First question is again on the animal health. So, in your comments, Anish said that we have sampled few products and there have been validations which we have received. So, is there any possibility of commercial supply starting maybe towards the fag end of FY'25?

Anish Swadi: So right now, we are under the validation phase. Once we validate the product, it goes to the customer. It takes anywhere between 14 to 18 months for the customer to register it and then start placing commercial supplies. So, I don't think it's going to happen at the fag end of FY'25, but we do expect shortly thereafter that commercial quantity or commercial orders will come in. The idea is that we validate all the products concurrently, supply them to the customer and we're supplying them in such a way that when the last validation is done, we're hopeful for the first validation that had been done to come through on the commercial side, so the plant idle time is kept to a minimal.

Rohit Nagraj: Second question is again on the crop protection front. So just wanted a little perspective from your end in terms of the domestic environment from inventory perspective given that there have been talks that monsoon will be normal and hopefully things will turn positive for the sector and a similar condition from a global perspective. And a concurrent question to that, in terms of the pricing environment, whether it is bottomed out and obviously once the inventories get normalized, only then the pricing will improve, just your thoughts in talking to your customers or so?

Anish Swadi: I can see more of the global environment because we are not much present in the domestic environment, but whatever I've heard on the domestic side is that there is still inventory in the system, but there's a lot of inventory. The monsoon is expected to be good, but I don't have much to say about the domestic market. On the global side. I think inventories, as I mentioned, huge amount of inventory being carried in the markets. Consumption has picked up, but it will still take a few more quarters to inventory to come down to acceptable level. And we expect that once that happens then orders will start picking up. On the pricing side, I think are not going down any further, they've already hit rock bottom, this is what I've heard from all my customers, and they expect to see a marginal improvement in pricing in the quarters to come. But that will only happen once the fresh orders start coming and once the inventory gets liquidated. I think that we're about 6 to 9 months away from that scenario right now.

Moderator: We have our next question from the line of Viraj Mehta from DBT Capital. Please go ahead.

Viraj Mehta: Sameer, on the first question in terms of gross margins, we have seen significant improvement in gross margin at more than 54%. Can you make us understand, is this due to lower pricing and your cost of conversion remains the same? Is this due to that or better product mix or has the pricing of the product gone up? What is leading to this such a very nice 54% gross margin?

Sameer Hiremath: Gross margin is 45%.

Viraj Mehta: Sorry, RM cost is what I meant 54% which was much higher earlier.

Sameer Hiremath: Raw material prices have come down and we've improved operational efficiency and product mix, it's a combination and selling prices also have not come down, raw material prices come down faster than selling prices and selling prices stabilize as well on the pharma side while there was impact of benefit of raw materials.

Viraj Mehta: My second question is regarding when you say asset turns of 1.1 to 1.2 times, is this as a percentage of growth CAPEX which you said is 55%, 60% of the total CAPEX or is this as a percentage of total CAPEX? So, if you do 1,000 crores CAPEX, would you do 1.1 time of 1,000 crores, would you do 1.1 time of 600 crores?

Sameer Hiremath: It's of the total CAPEX.

Viraj Mehta: Now, even if I assume 17%, 18% our normalized margins for over a longer term that we do, the ROCE, if we take like 2-3-4 years to ramp up, is very low single or mid-teens, right, early teens. So how do company of our status justify that kind of low ROCE for such large CAPEX over a longer period of time, Sameer?

Sameer Hiremath: If you look at ROCE in FY'21 and '22, we were in excess of 16%, right? It has dropped off post that in the last 2-3 years. Once this full capacity gets utilized and comes on stream in the next couple of years, we can see our ROCE will go up and closer to the high teens and margins will go, which is the most important metrics, our EBITDA margins will go in excess of 20%. But today we ended Q4 with over 18%. Historically, we were about 19%, 20%. We will come back to that plus-20% number in the next couple of years once all these capacities start getting utilized.

Viraj Mehta: So, 20% on the overall company, not on the new CAPEX? So new CAPEX will be much higher?

Sameer Hiremath: That's true.

Moderator: We have our next question from the line of Ravi Agarwal from Agarwal Investments. Please go ahead.

Ravi Agarwal: My question is in Q1 FY'24, Mr. Kuldeep Jain told that we have to invest Rs.200 crores in this financial year. So how much we have covered, whether we have covered this Rs.200 crores, and in which area we have put this money?

Kuldeep Jain: Yes, yes, we have definitely, as we mentioned earlier, Rs.200 crores, we have invested almost Rs.230 crore this year, out of which Rs.145 crores we invested in animal health business, the balance is infra and other side CAPEXs.

Ravi Agarwal: Sir, what is the utilization level in this financial year and particularly 2nd half of this financial year?

Kuldeep Jain: See, as I mentioned this is infra and other debot which is really ongoing one, but the biggest growth CAPEX which we invest in animal health will start giving us revenue in time to come. As Anish has already mentioned, we have started the validation quantities which will take 14 to 18 months for commercialization.

Sameer Hiremath: Overall utilization for the Pharma Business is about 80% and crop protection business is currently a little below 70%.

Ravi Agarwal: After FY'24 result, at what time you are hoping that we can achieve up to 3,000 crores type of revenue? And whether we can achieve 6,000 crores of revenue till FY'30?

Sameer Hiremath: Yes, hopefully before that, I mean our targets are to do it before. I think in the next few years we should be coming back to that 13% to 15% run rate. So we should be. If you can do the math. We'll come back in the next 3 to 4 years, yes.

Ravi Agarwal: And I have seen that many agro players like SRF or PI also, they are moving towards pharma side. So, whether our approach is also more towards pharma side than agro side because of the Chinese competition we are saying that much opportunity is there in the pharma side? And second thing I have read somewhere else in the Financial Times that Chinese new rule will create some type of reluctancy for the USFDA or such type of regulator to go over China. So, whether Indian industry will get some type of benefit in pharma side?

Sameer Hiremath: No, that's a very good question. And actually, it is very true. I've heard about the German authorities not wanting to go to China to inspect because of the issue that you mentioned, and it is likely spread to other regulatory authorities. Customers and regulatory authorities on the pharma side are reluctant to go into China. And we're seeing in companies in India, like, Hikal will benefit from increased traction. So from the immediate short term, I think the number of enquiries from the pharma side are increasing rapidly. Crop also there's a reluctance to move to China for new chemistries and new technologies. They go to China more for generic products and old chemistries. So, we are getting enquiries for new technologies and all pattern stuff on the crop side. And on the pharma on both API and on CDMO, we're seeing increased traction. And we have a lot of capabilities for new technologies in the company. So, we are sector-agnostic. We have 2 verticals and the third vertical in the animal health is being built up. So, we have a pretty diversified portfolio and so when both starts firing on all cylinders, the operating leverage and the margin profile, the company will tremendously improve once crop come back to steady state, which we expect from next year onwards.

Ravi Agarwal: On the pharma side, are we making API? Then are we making intermediate also or directly we are purchasing intermediate from outside, and we are manufacturing API?

Sameer Hiremath: No, mostly we make APIs, but we backward integrated many steps in-house. So, what we buy is pretty early on in the raw materials phase.

Moderator: We have our next question from the line of Nisarg Vikharia from NV Alpha Fund management. Please go ahead.

Nisarg Vikharia: Any one-offs we have in the Pharma Business in this quarter?

Sameer Hiremath: No.

Nisarg Vikharia: Then why are we so not confident of sustaining, because we've done these margins consistently from 2015, 2016 to 2020, 5 years. So when some participant has asked that are you confident of sustaining these margins, you are not very confident, so what is the reason for that sir?

Sameer Hiremath: No, no, margins, we are confident, it's about the revenue. As Manoj mentioned, our Q4 is always the strongest quarter and in Q1 there was a shut down in the plant, so the plants don't run at full utilization in Q1, so in Q1, we shut up plants for almost 3 to 4 weeks for annual maintenance in the year. We will be picking up on Q2 onwards.

Nisarg Vikharia: But these different margins that were there in pharma, they have normalized now, agrochemicals, we don't know, but pharma is on track now, right?

Sameer Hiremath: That's you are correct in that, yes.

Moderator: We have our next question from the line of Sajal Kapoor, a shareholder. Please go ahead.

Sajal Kapoor: A quick question on the validation batches for animal health. Would you mind sharing the average ticket size for the shipment of these validation batches and if you could also share the low and the high range, I mean, are we talking about 1-2 crore kind of shipments for validation or is it kind of in the ballpark of 5 crores per validation batch?

Anish Swadi: So, we don't get into details in terms of each shipment batch values, but each batch I can tell you varies depending on the size of the molecule and the size of the ultimate commercial quantities that the customer is going to take. So, they vary, they're not in a specific range, right, but we don't disclose that.

Sajal Kapoor: And the number of products, is it 15, Anish, or is it more than 15? And would you be able to disclose the total number of validation and batches across all products that you'll be undertaking over the next 2 years?

Anish Swadi: It's in double digits, but less than 15.

Moderator: We have our next question from the line of Rohit Nagraj from Centrum Broking. Please go ahead.

Rohit Nagraj: Just 1 more point wanted to clarify in terms of the CAPEX. So, you mentioned that this year we did 230 crores of CAPEX. I missed the number. How much was for animal health? And in terms of total CAPEX, how much have we invested in animal health and is there any CAPEX which is remaining for the project?

Sameer Hiremath: I think we spent about Rs.230 crores in CAPEX last year, although almost Rs.140 crores out of that was for the animal health and that is all being spent already, and this balance was for debottlenecking and maintenance CAPEX.

Rohit Nagraj: My question is, is there any additional CAPEX which is supposed to be spent on animal health or is it completely over now?

Anish Swadi: The plant has already started operations, so not from that, but if we need to add at any future point any reactors or some debottlenecking needs to be done at some future date, then we'll invest, but as of now, no.

Rohit Nagraj: So this particular facility is up and running for the commercial production whenever our validation happens?

Anish Swadi: That's correct.

Moderator: We have our next question from the line of Yog Mehta from AP Capital. Please go ahead.

Yog Mehta: I just have 2 questions. How is the destocking situation on the crop protection business and what kind of opportunities do we see with global innovators?

Sameer Hiremath: If it is specific to crop protection for global innovators. Well, I just had a roadshow with my customers 2 weeks ago in Europe and US and there's a lot of interest to move a lot of supply chain out of China, it's taking time because these companies are doing massive restructuring, as you know, but I think a lot of projects will come to India for new chemistries and new technologies. The future seems quite bright for the crop business. It's a short-term pain, but I think the medium to long term is very positive.

Moderator: We have our next question from the line of Ravi Shah from Opal Securities. Please go ahead.

Ravi Shah: I have 3 questions. So, the first question is on the animal health business. So, you have mentioned 4 products and as the 4 products are validated as per our plan right now, so like are they under validation can you just give some clarity there?

Anish Swadi: Sorry you asked, are we on track for validation, is that what your question was?

Ravi Shah: Yes.

Anish Swadi: By and large on track, yes, we are.

Ravi Shah: When can we expect to see value addition coming from this segment?

Anish Swadi: Well, I would also consider validation to be value addition, but if you're talking about commercial quantities, as I mentioned earlier that we expect commercial quantities to happen anywhere between 14 to 18 months post validation. So, I would say in the next 2 years, you'll see the commercial quantities starting to move the needle on this business.

Ravi Shah: So how does the current pharma industry scenario dynamics look like and what do you expect it to be forward?

Manoj Mehrotra: The generic business continues to grow and yes, the pricing pressure up and down continues and that's the nature of the business. But the volume growth remains, and our strategy is to focus on a few APIs and make sure that we are global cost leaders and that will continue. But overall, I'll say the traction is good, as someone pointed out earlier that our growth in the generic segment, if you see on a standalone basis is healthy.

Ravi Shah: Last question was on the pharma side prices. So do you expect the RM prices are here to stay?

Manoj Mehrotra: In the last 2 quarters they have stabilized and at least we have visibility for another 1 quarter they are stable. We are not seeing any increase in raw material prices for pharma.

Moderator: We have our next question from the line of Tushar Vasuja from Yogi Capital. Please go ahead.

Tushar Vasuja: The first question was how much total CAPEX have we done for animal health segment?

Anish Swadi: So, we just answered that question, but just to reiterate, we've done about 140-odd crores of CAPEX.

Tushar Vasuja: And another question is how much of our revenue is from repeat customers?

Anish Swadi: I am sorry. How much of our revenue is from -?

Tushar Vasuja: Repeat customers.

Anish Swadi: In which business?

Tushar Vasuja: Overall.

Sameer Hiremath: I mean it depends on which segment. If you look at the CDMO business, I mean it's almost 100% is repeat because new molecule is about 10% to 15% every year. So close to 85%, 90% is repeat.

Generics, we keep adding customers on the API space but again repeat customers probably, Manoj, would be 70%, 75% in that range?

Manoj Mehrotra: Yes, I'll say more in the region of 75% because the customer is logged in here, you have the regulatory approval, they stay for it with you and then we keep adding new customers, new geographies. So, 75% is a good number.

Moderator: We have our next question from the line of Rohit Nagraj from Centrum Broking. Please go ahead.

Rohit Nagraj: Apologies on harping on the animal health business. So just one thing, in terms of any key starting material, do we have any dependency from China particularly on the products which are manufactured in the animal health nutrition business?

Anish Swadi: So basic chemicals, of course, China is there, but what we have done is we have derisked China in terms of developing our own suppliers here from the starting material perspective. So, whatever dependence we have on China on raw materials, we always have a dual raw material source. So that's outside of the geographic region of China, so we have diversified that.

Rohit Nagraj: And beyond animal health nutrition for the pharma and crop protection, any more dependency in terms of KSM from China?

Sameer Hiremath: So, I think on the crop side, we don't buy KSM, we buy typically early-stage raw material because of backward integrated. Even on the pharma side, our strategy in the last few years is to back integrate. So what we buy out of China has come down significantly and even what we buy out of China, we have multiple sources in China to buy from. So, our risk is considerably reduced, and we continuously monitor this on a continuous basis to reduce our dependency on China and geographies.

Moderator: As there are no further questions, I would now like to hand the conference over to Mr. Sameer Hiremath for closing comments.

Sameer Hiremath: Thank you, everyone for joining our quarterly earnings call and for your continued interest in our company. We appreciate your support as we navigate through the challenges of the global business environment. As we conclude this call, we want to assure you that we are here to address any further questions or concerns. Please feel free to reach out to us or to our Investor Relations partners, Strategic Growth Advisors. Once again, thank you for your participation and have a very good evening. Goodbye.

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